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Berkeley, California

Government History Documentation Project
Ronald Reagan Gubernatorial Era

CALIFORNIA STATE DEPARTMENT OF FINANCE AND GOVERNOR RONALD REAGAN

Edwin W. Beach	Some Technical and Political Aspects of State Budgeting
Roy M. Bell	Revenue Policies and Political Realities
James S. Dwight	Early Reagan Administration Perspectives on State Finance, 1966-1967

Interviews Conducted by
Gabrielle Morris
in 1983-1984

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PREFACE

California government and politics from 1966 through 1974 are the focus of the Reagan Gubernatorial Era Series of the state Government History Documentation Project, conducted by the Regional Oral History Office of The Bancroft Library with the participation of the oral history programs at the Davis and Los Angeles campuses of the University of California, Claremont Graduate School, and California State University at Fullerton. This series of interviews carries forward studies of significant issues and processes in public administration begun by the Regional Oral History Office in 1969. In previous series, interviews with over 220 legislators, elected and appointed officials, and others active in public life during the governorships of Earl Warren, Goodwin Knight, and Edmund Brown, Sr., were completed and are now available to scholars.

The first unit in the Government History Documentation Project, the Earl Warren Series, produced interviews with Warren himself and others centered on key developments in politics and government administration at the state and county level, innovations in criminal justice, public health, and social welfare from 1925-1953. Interviews in the Knight-Brown Era continued the earlier inquiries into the nature of the governor's office and its relations with executive departments and the legislature, and explored the rapid social and economic changes in the years 1953-1966, as well as preserving Brown's own account of his extensive political career. Among the issues documented were the rise and fall of the Democratic party; establishment of the California Water Plan; election law changes, reapportionment and new political techniques; education and various social programs.

During Ronald Reagan's years as governor, important changes became evident in California government and politics. His administration marked an end to the progressive period which had provided the determining outlines of government organization and political strategy since 1910 and the beginning of a period of limits in state policy and programs, the extent of which is not yet clear. Interviews in this series deal with the efforts of the administration to increase government efficiency and economy and with organizational innovations designed to expand the management capability of the governor's office, as well as critical aspects of state health, education, welfare, conservation, and criminal justice programs. Legislative and executive department narrators provide their perspectives on these efforts and their impact on the continuing process of legislative and elective politics.

Work began on the Reagan Gubernatorial Era Series in 1979. Planning and research for this phase of the project were augmented by participation of other oral history programs with experience in public affairs. Additional advisors were selected to provide relevant background for identifying persons to be interviewed and understanding of issues to be documented. Project research files, developed by the Regional Oral History Office staff to provide a systematic background for questions, were updated to add personal, topical, and chronological data for the Reagan period to the existing base of information for 1925 through 1966, and to supplement research by participating programs as needed. Valuable, continuing assistance in preparing for interviews was provided by the Hoover Institution at Stanford University, which houses the Ronald Reagan Papers, and by the State Archives in Sacramento.

An effort was made to select a range of interviewees that would reflect the increase in government responsibilities and that would represent diverse points of view. In general, participating programs were contracted to conduct interviews on topics with which they have particular expertise, with persons presently located nearby. Each interview is identified as to the originating institution. Most interviewees have been queried on a limited number of topics with which they were personally connected; a few narrators with unusual breadth of experience have been asked to discuss a multiplicity of subjects. When possible, the interviews have traced the course of specific issues leading up to and resulting from events during the Reagan administration in order to develop a sense of the continuity and interrelationships that are a significant aspect of the government process.

Throughout Reagan's years as governor, there was considerable interest and speculation concerning his potential for the presidency; by the time interviewing for this project began in late 1980, he was indeed president. Project interviewers have attempted, where appropriate, to retrieve recollections of that contemporary concern as it operated in the governor's office. The intent of the present interviews, however, is to document the course of California government from 1967 to 1974, and Reagan's impact on it. While many interviewees frame their narratives of the Sacramento years in relation to goals and performance of Reagan's national administration, their comments often clarify aspects of the gubernatorial period that were not clear at the time. Like other historical documentation, these oral histories do not in themselves provide the complete record of the past. It is hoped that they offer firsthand experience of passions and personalities that have influenced significant events past and present.

The Reagan Gubernatorial Era Series was begun with funding from the California legislature via the office of the Secretary of State and continued through the generosity of various individual donors. Several memoirs have been funded in part by the California Women in Politics Project under a grant from the National Endowment for the Humanities, including a matching grant from the Rockefeller Foundation; by the Sierra Club Project also under a NEH grant; and by the privately funded Bay Area State and Regional Planning Project. This joint funding has enabled staff working with narrators and topics related to several projects to expand the scope and thoroughness of each individual interview involved by careful coordination of their work.

The Regional Oral History Office was established to tape record autobiographical interviews with persons significant in the history of California and the West. The Office is under the administrative direction of James D. Hart, Director of the Bancroft Library, and Willa Baum, head of the Office. Copies of all interviews in the series are available for research use in The Bancroft Library, UCLA Department of Special Collections, and the State Archives in Sacramento. Selected interviews are also available at other manuscript depositories.

July 1982
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On behalf of future scholars, the Regional Oral History Office wishes to thank those who have responded to the Office's request for funds to continue documentation of Ronald Reagan's years as governor of California. Donors to the project are listed below.

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INTRODUCTION

Behind the partisan speechmaking of Republicans and Democrats and the competing position papers and program initiatives of the governor and the legislature lies the reality of the state's revenues and expenditures, which provide the framework within which decisions must be made. Keeping track of past revenues and expenditures and charting their future deployment in the annual budget are the responsibilities of the Department of Finance, often referred to as the first among equals of the state's executive departments.

In this volume of the Ronald Reagan Gubernatorial Era Project, three key members of the California Department of Finance, Edwin Beach, Roy Bell, and James Dwight, explore the implementation of Governor Reagan's policies designed to curtail the cost of state government. In addition, they provide perspective on the traditional role of the finance department.

Ed Beach and Roy Bell were both members of the sizable cadre of civil servants who entered California state government shortly after World War II. They rose to positions of responsibility quickly as state operations grew to meet the needs and expectations of the postwar surge in population. In their mid-20s when they joined the Department of Finance, they were its senior career staff in 1966 when incoming governor Ronald Reagan convinced James Dwight, then the 30-year-old controller of Sunkist Growers in southern California, that he should be deputy director of the department. Like Dwight, Beach and Bell had been recruited for government positions because of their previous business-management experience.

The interview with Dwight deals with his efforts in 1966 to provide the governor-elect with a working knowledge of the state's finances (more going out than coming in) and to provide input on the budget Reagan would present to the legislature shortly after he took office (already in preliminary form). Interviews with Beach and Bell present the experiences of the career civil servants in the department, who saw their task as providing the governor with the fiscal data he needed and with pointing out potential pitfalls.

Although some interviewees for the project have commented that the Reagan administration tended to distrust public employees as wanting to "continue business as usual," Beach, Bell, and Dwight express considerable respect for each other. Of Beach and Bell, Dwight says in his interview, "Those two guys are the best of a dying breed, in the sense that they are true civil servants, and they were there to serve the political leadership the best way they knew how. They had been valued by Senior Brown [Governor Edmund G., Sr.] and they were just as valued and [had] just as good a status [with us]."

And Beach comments, "I did not have the same kind of difficulty that many people had in working for the new [Reagan] administration because both Roy and I [had] worked for four governors before that...so we could fit ourselves into what his needs were. I will say that there were some things that were started that left you a bit breathless."

One of the first things that left Beach breathless was Dwight's suggestion, promptly adopted by the governor, that all departments cut their budgets by 10 percent. The idea of a flat percentage cut has since been used with some frequency, but in 1967 Finance warned the governor "not to get hit cold;" that he should be prepared with alternative cost-control methods for departments that had constitutional, statutory, or other provisions that prohibited across-the-board cuts.

From their different vantage points, the three interviews continue with discussion of the elaborate process of preparing the budget and of hearings by the legislature, as well as reorganizations within the Department of Finance. Dwight provides useful comments on the Reagan cabinet and decision-making process. He also explains the importance of the budget as a policy tool, citing welfare reform and education-funding strategies during the governor's second term.

Beach and Bell, who are so frequently referred to as a team in interviews for this project that one transcriber designated them as "Pete Shapell," discuss their respective specialties within the Department of Finance. Beach, who was chief of the budget division, focusses on the importance of making sure that different program concepts are adequately thought out and adequately costed before the governor makes a decision, with examples from welfare and corrections expenditures. He includes comments on the impact of federal funding and complications that resulted from the legislature developing its own, independent information capability in the early 1960s.

Bell, who was deputy director of Finance in the Reagan administration and department director under Governor Edmund G. Brown, Jr., concentrates on the significance of economic forecasting and recurrent fluctuations in state revenues. His thumbnail sketches of the ups and downs of income during the Reagan administration and the responses of different directors of Finance and the legislature are a virtuoso feat of memory.

As a bonus, the interviews with Beach and Bell provide valuable information on the growth and internal organization of the Department of Finance, including the advent of data processing and such innovations as program budgeting. One is reminded by their remarks that the generation of state employees who came to work in the 1940s is retiring in the 1980s. The advent of a new generation, with different training and operating conditions, will undoubtedly have a significant impact on the conduct of state government.

At the time of interview, Beach and Bell had both recently retired. The interviews were conducted in the summer of 1984 at their pleasant Sacramento homes. Dwight had been interviewed earlier that year in his office in Washington, D.C., where he was then partner for government affairs at Deloitte Haskins

& Sells. The project had planned to conduct additional interviews with Mr. Dwight to gather specific information on budget and revenue decisions in succeeding years of Reagan's gubernatorial administration. Unfortunately, financial and scheduling limitations precluded further sessions with him.

All three men were sent copies of their individual interview transcripts for review. Each made minor grammatical revisions in the lightly edited text and clarified occasional passages as requested by the editor.

Gabrielle Morris
Interviewer-Editor

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Berkeley, California

Government History Documentation Project
Ronald Reagan Gubernatorial Era

Edwin W. Beach

SOME TECHNICAL AND POLITICAL ASPECTS OF STATE BUDGETING

An Interview Conducted by
Gabrielle Morris
in 1984

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EDWIN W. BEACH

ca. 1976

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I STATE FINANCIAL CONTROLS IN THE 1940s

[Date of Interview: 16 August 1984]##

Early Data Processing in the Department of Employment

Morris: I'd just like to get what you were just telling me on tape.

Beach: I was, as I said, very fortunate in having known Fred Links personally through the church before the war and then after the war when I started with the state in the Department of Veterans Affairs. I moved from there to the Department of Employment and then into the Department of Finance in the budget operation, directly under Fred Links and (probably an old friend of yours) Ellis Groff.

Morris: Yes, that's right.*

Beach: Well, Ellis Groff was the assistant director under Fred Links. I worked directly for Ellis Groff under Fred, when I first came with the Department of Finance.

Beach: He has, I would think, a lot of the early background prior to the war. I did not start with the state; I had my own business and worked for Goodyear Tire and Rubber Company prior to the war. I did not actually start with the state until after the war, in 1945, in the Department of Veterans Affairs.

Morris: Had you taken time out for military service?

Beach: Oh, yes, I was in the service four years. In fact, I went to work for the Department of Veterans Affairs within thirty days after coming back—much against what I had initially planned to do. [laughs]

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*See interviews with Groff and Links, California State Finance in the 1940s, Regional Oral History Office, University of California, Berkeley, 1974.

##This symbol indicates that a tape or segment of tape has begun or ended. For a guide to tapes, see p. 45.

Morris: Of course, after four years in the army one's ready for--

Beach: You just didn't think about something like that.

Morris: Were you doing financial tasks in the army?

Beach: No, I was in the Coast Guard, in the area of supply. We had responsibilities for the distribution of supplies in the entire Pacific area. The breaks had me on Government Island there in Oakland. I spent my time there.

I guess I went into it somewhat naturally, the opportunity was there. My background was what you might call supply and demand, it was what I had my own business in. The Goodyear Tire and Rubber Company, again, was the same type of operation.

So when I came out, my uncle had a very good friend by the name of Vic McCambridge, who was the deputy director of Veterans Affairs. They were looking for veterans to come into the department, and to train them as appraisers, specifically, in the home loan program, because they were just starting to expand the home loan program. The Department of Veterans Affairs at that point hired probably twelve to fifteen (I'm not sure now) all returning veterans, and then set up a regular training program. We went to school part-time, trained and learned the techniques of appraisals, basically for homes.

Then the arrangement was that everybody was assigned a general area, so you would kind of stay with that. We all worked out of Sacramento; but then my area was from the Tehachapis through Fresno, which is a great area [laughs].

Morris: It's a long way from home.

Beach: Yes, it was. We would go for two weeks at a time and catch the field work and then come on back. Then we'd work out of Sacramento for a couple of weeks and then go back to our area. It was a very interesting thing. During that period, of course, that's where they started to expand, and as they expanded they needed to set up offices and they were caught in a dilemma--they actually did not have anyone who was trained in either office management or the so-called supply of services and setting up offices. I just kind of fell into that role.

I found myself, although I had been re-trained as an appraiser utilizing my old backgrounds of accounting, management, and went out and set up three district offices in the valley, and then came back to Sacramento. Then I left the Department of Veterans Affairs and went into the old Department of Employment, in the control function

Beach: of data processing. Data processing, at that time, was new; Employment was the pioneer in the state for the start of the concept of what now we call data processing.

Morris: This would be the old IBM tabulating concepts?

Beach: The old IBM tab-card, the original deals. People still felt very uncomfortable with using those new-fangled concepts [laughs], and there was a need of a solid control operation in the department.

Morris: This would be in the unemployment function?

Beach: Yes, it was the processing of claims for the data-processing operation. We'd have the forms that still came in typed or by hand or whatever they were from the field, and the control operation would take those, run them, and put up our controls. Then we'd send them to the key-punch gals, and you'd go through the process of key-punching; the IBM cards would be made. Then, they would run the tab-run from the cards, and that tab-run would come back out to us. So then we would have the run from the cards, and our own controls that had been initially made as to totals, amounts, that type of thing. If they didn't agree, then we had to go back and work out the problem.

It was a very interesting experience to run that. It was an important role at that particular time because, as I said, there was a lot of uncomfortableness about the old IBM cards, the new innovation. It was a very different field, something that people were not accustomed to.

The original people that ran the old IBM machines were a group that was unto themselves, a little bit different than you would think of as office personnel. Why that happened, whether because of the person who was in charge originally or not, I don't know. It was just a group of individuals who were very firm in their own operational processes, but they were not necessarily what you'd think of as the smoother type of office personnel.

Morris: They were wedded to their machines.

Beach: They were wedded to their machines, and they were very, what terminology to use--huffy and gruffy type individuals. [laughs]

Morris: Were they men or women mostly?

Beach: Mostly men, and the women were, with due deference--they were some awfully nice people, I don't want to give the wrong impression; but personality-wise they were fairly, you could use the word tough.

Morris: Was your feeling that this was because they were competing in this new kind of development?

Beach: That's right. They were competing in something that was new. I think that what I saw was the need for the women to be hard, rough, and gruff, in order to compete with the men, who tended to be hard, rough, and gruff. It was very interesting indeed.

Old original IBM key-punch and data process people that ran the machines were really a large group unto themselves. They just were a different type of person in some ways. They kept to themselves, they worked hard and they played hard.

Morris: Is that similar to the kind of description you hear about computer programmers and computer experts now?

Beach: No. I think today you're looking at such a sophisticated technology that you are dealing with people who, first, have had considerably more education, I'm sure, than the average. You're dealing with individuals who have been exposed to today's technology somewhere along the line.

In those days, in '46, '47, you were looking at something that was primarily mechanical. You were not looking at the development of computerization as we think of it today. You were looking at the mechanical running of a machine that physically had cards in it. You were dealing with something physical at all times. Key-punch gals punched out the card from the information on the form that came in. The card then was the vehicle that was used for the rest of the functioning. Everything originated with that card and went from that card—duplicate cards, sorting, any information that was on the card. So you always had a physical card. Then the machines at that time were all designed to handle a physical card. Each sort was kind of an operation, a card jammed, the machine kicked, something would not go through. You didn't re-program. What you had to do was to go in physically and pull the card, make a new card, and then of course you accounted for what happened to the card—part of the normal controls. But it was an area that was more physical then what you think of today.

Today's people, many times you talk about the person who is exceptionally well-versed or has the aptitude, who may be bordering in some ways on the higher IQ, the tendency to be almost a genius, but maybe not quite there. But the person who does not always fit in with what one may think of as the average person, because they're just a little eccentric. They're so developed in their own areas because of the exceptional informational usage that they have, that they put into it. Those days, it was not that type that you were looking at. You were looking not at the person who had an exceptional ability mentally, really--and again, I'm not trying to put down anybody, I'm just saying that the situation was completely different. What you had to deal with was a person that, when that danged machine jammed, they had to stop it before they ruined fifty

Beach: more cards behind it; clear it out, do whatever was necessary to start it back again; make sure where they were in the process; and put them back. Then when you wound up with your processing, with the sorting, whatever it may be of information you were going with, you'd run them through. They had many kinds of machines, but everything worked off that card. That was it. If you lost the card, or didn't have it reproduced right, then something else was wrong.

Department of Finance Budget Division; Origins of Functional Budgeting

Morris: Were you looking for an opening in the Department of Finance?

Beach: No. In fact I had never even thought of Finance.

Morris: But this experience with the control system--?

Beach: What actually happened was, when I was with the Department of Veterans Affairs, one of my very close friends was a person by the name of Phil Groff, who happened to be the younger brother of Ellis. Phil and I were in the service together, so we'd had a lot of back history together.

While I was over at Employment, Phil gave me a call and said that Ellis was looking for somebody that would come in in the control section of the Department of Finance, that had some experience and some background. Phil immediately had thought of me and mentioned me to Ellis. Ellis called me and asked if I would be interested. I went over, interviewed with Ellis Groff, and made the transfer. I saw something that was very challenging, very interesting. With this experience in the controlling there, and my background again of establishing offices and things, it just kind of fit in.

I went over then into Finance, into what was called the control section of Finance, with an exceptionally competent individual by the name of Herb Stephenson. He passed away quite a few years ago. Herb and I worked in the control unit of the Department of Finance, within the budget operational area.

Morris: Control in the sense of looking at premium expenditures?

Beach: No, and that's what I wanted to clarify for you. As I say, it was called the control unit; in this case it was the unit that had responsibility for the development of all of the detailed charts. Everything that was in the front section of the budget, before you got to the individual departments. Schedules, 1, 2, 3, 4, 5, 6, 7,

Beach: 8, 9, 10, 11, 12, and 13. [laughing] It was the control section that put together all of the schedules. It was the control section that totalled the budget. It was the control section that took all the individual pieces and put them together by functions. The relationship of various departments, there were none in those days, generally. You had your departments, but no one considered Corrections and Youth Authority as a function at that point. You would not expand that, you would not do anything else. If you looked in Education, it was the Department of Education only, you didn't bring anything else in.

Well, the area of the control unit was one which suggested and recommended to the director, through Ellis and Fred, that maybe you could combine these so that you would have some patterns. You would start doing some functional relationships. "How did it fit in the budget? How did you run the budget? Alphabetically? How did you put them in?"

It was the control section that took the responsibility for saying, "This is the approach which we think ought to be used. Why don't we try putting this together." Out of the control section came a lot of the recommendations for the kinds of organizations that are currently in existence. Through the re-organizational process over the years.

Now I don't, again, want to indicate that that control section was responsible for all the reorganization that came about, but it was responsible in the earlier days for the concept being developed of consolidation.

Morris: Who thought about putting these things together in a functional pattern?

Beach: This really came out of the control section that was Herb Stephenson's and my responsibility.

Morris: Did you put this control budget together first and then go and work through the individual departments?

Beach: As you would recall, in those days we did not have an annual budget, we had a two-year budget, so you had an extensively heavy period of budget preparation and with the legislature. Then you had a slack period in comparison, so that we had opportunity to do some developing, some thinking, some research work, putting together. What I think you would find is that during the initial budget or the immediate budget process, not too many changes would be made. You'd make some as you'd maybe find this doesn't quite fit, but you do most of that during the intra-period, when you really try to develop "How would this be better? How would you like to see this? Would

Beach: you like to go more functional? What would it be that would be a help to the director of Finance and therefore, to the governor?" At that time, that was the direct role that was used.

Morris: Was the idea that this would help in determining whether money was being spent well, or as a way to keep in touch with whether costs were getting out of hand?

Beach: I would like to say we were far-sighted enough to say, yes, this was the concept of thinking in back of it; but practically, no.

Morris: Well, your first comment was that your major concern was trying to keep costs in control, talking about the 1940's.

Beach: Yes. Well, there is no question about keeping costs in control. Let me try it this way for you. You asked about the control section. Now, the entire function of the Department of Finance budget operations--and for clarification reasons, so I don't have to keep repeating it, unless I discuss something differently, let's primarily think, when I say Department of Finance, of the budget operational area. Budget operation includes expenditures and revenue review. So, use that. I don't want to get into the concept of what about the planning, what about the purchasing, general services portion of it. I'll just stick to this half of the Department of Finance for the moment.

The role there, and it was one that Fred primarily took the initiative in developing, was to make sure that people didn't just go out and spend money. He wanted to make sure that it was spent somewhat adequately, that the amounts were consistent, and that the purposes were in the framework that the governor, as the political person, agreed to. That's really what it was. So the entire role of that whole operational side of the budget was for this kind of review.

Now the control section at this point, did not try to get in, in any way, as to the adequacy of any expenditure. We did not, in that role, question one amount of an expenditure. That was done by the analysts who had the individual budgets. Their role was to do that.

The control section, at that point, was to take the individual budgets and bring those together, but not question them. The control section did not question any budgets or amounts or anything. Our role was to try to structurally, functionally, organizationally suggest changes or--we even put together, if you look at some of the early ones, departments under a functional heading. In the earlier budgets, those with functional headings--we didn't attempt to say "You two departments should be working together." That wasn't our role, we were just saying, "Governor, when you start looking at the function of incarceration, here's generally what you're spending."

Morris: And you need to look at both the Youth Authority and Corrections as a related total.

Beach: As a total, so you have a feel as to, "Where is your money going? Here's where its going." We set the functional deal, then we kind of squeezed them down until we got to what is called the old Schedule 10 then to a Schedule 3--a Schedule 3 is a very short summary. [laughs] Again, the role was strictly to endeavor to give to the policymaker something that would be quickly understood, and quickly visualized.

II THE GOVERNOR'S FISCAL ARM

Pursuing Program Alternatives

Beach: In those days the governors did not spend enormous amounts of time reviewing. They wanted to know, "How's it coming?" I was fortunate because I came in with the former Chief Justice [Earl Warren], and things were very rosy at that point in time. He did not have to worry about his revenue sources. You had a governor who was a Republican who was probably the most liberal that you ever wanted to come across, consciously looking for ways to help the down-trodden. You know, in today's market he would be a left-wing Democrat. But Earl Warren was a staunch Republican. [laughs] Which is interesting if you look back in those days.

Morris: Well that was primarily the only game in town in those days.

Beach: That was the game, and he knew what the game was. Plus, he also did not play it to be played. There's some people I think, who felt that Earl Warren was an opportunist that proposed things which he may not have felt strongly about. I know personally, he felt very strongly about some; as an example about what we now have as Medi-Cal. You know, he was the one that first really conceived that concept and presented it. It got literally killed by the state senate, we never even got off the first hearing of it.

Morris: Would he have come to the Department of Finance to get some kind of projection as to what the costs might be on something like that?

Beach: Yes. Yes he would, he did. The Department of Finance has been used by all the governors as their fiscal arm, without any question. I know of no governor that I worked under who did not use the Department of Finance as their fiscal right arm--not left, but right arm, always there. Some governors used the Department of Finance more than others. The time also would tend to dictate how they used the Department. In the review of program needs, it is very difficult to separate dollars and program. The two tend to go together.

Beach: For thirty years, I felt my role was to make sure that the information that was given to the governor was a total picture of both program need and the dollar cost of the program need, with possibilities of alternatives hopefully developed by the program people. One of the roles Finance played for many many years, was a pushing back to the program people, saying--

Morris: In the departments?

Beach: In the departments. Finance may develop people who are fairly familiar and close to being expert in specialized fields, because of their own backgrounds, their own expertise, and the time they've been handling those kinds of projects. But never did Finance have the full capability--nor should it have had, of developing a program per se. You're the catalyst. You go back to the departments and say, "Hey, the governor would like something like this, if you haven't heard it once, you're going to hear it a second time from down here. You've just got to do it. This program looks very good. Here's the cost to it that we've worked with you on, what about an alternative? Is there anything that you can give to the governor as an alternative?"

The most difficult thing you had to do was to try to push a program person into developing an alternative. That was one of the most difficult things you had to do, because program people tend to have developed what they want. And, therefore, the idea of an alternative to that is not always palatable. You had to go to them with the question, could there be one that would cost less? Or in some cases it would be a situation where a financial person would say "Golly, that doesn't look like it could be the best possible solution. Have you thought of anything else that might be used to implement this or subsidize it?" whatever it may be. And push again back to the program people the idea of having to look again. Finance is always the skeptic, the hard-nose, the obstructionist. But it is the role that has to be played. There must be somebody in government who says, before the governor has to hand-wrestle with it, are you sure you're ready to give him this program and have him go out with it?

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Morris: You've got governors of differing political philosophies. I think of Pat Brown who was governor in an expansionist period, and then followed by Ronald Reagan who had very different economic and budget conditions and political ideas.

Beach: Completely different conceptual ideas.

Morris: How can you serve that function with two politically divergent governors?

Beach: Oh, it's quite easy. You see, Finance does not make the decisions. It is not the role of Finance to say: This is the program you should use. It's the role of Finance to say: Here are all of the factors. Here are some alternatives. But the program people have to do the developing and the presentation. What is it you want?

It is the program person who has been appointed by the governor, who supposedly represents his philosophy. No matter what we may feel about something personally, the role of Finance was to say: If you're going to do this over here, is this the best way to do it? Are there any other ways you can arrive at this point. Is there some other point that is close to this that you may want to consider?

Providing Full Information; Comparative Decisionmaking

Beach: The posture is never to let the governor get caught without full disclosure and full information, and the pros and cons of the plan that is being submitted to him to make a decision on. Regardless of how it is, whether in Corrections, again a beautiful example--same department, the same problems--Pat Brown had one approach to it, Governor Reagan had another approach to it. Finance's role is not to say one's good, one's bad. Our role was to make sure that both concepts, when they came up from different program people, had been adequately thought out, had been adequately costed, and that there were no blind spots in either one. But the governor had then to make his decisions. He's the one elected by the people politically. He knows what he wants, but you don't let him get caught.

Many cases, the decisions were made knowing that, boy, here's a spot that could come up and haunt us. Or, here's a thing that if somebody should pick it up, we really don't have any answer for it at this point. But that's part of the political process. They know. Our role was to make sure that the governor--

Morris: To say: We don't have information in this area.

Beach: That's right. "Unfortunately, governor, we can't support this, or we don't know what it is, the agency can't support it." It's always made with the program person there. The governor would say "What is the answer?" and you'd say, "We don't have one at this point." All right, there's nothing wrong with that. It's just that the governor has to be aware of the fact that there is the possibility that if somebody picked this up, he would have to scramble for an answer. Maybe he'd say "Go back and try to find something." But it is necessary that prior to the decision being made, the person is aware of all the potential pitfalls. You can have nothing but pitfalls if that's the way you need to go politically. That's fine, and then

Beach: Finance's role is to strongly support that position to the legislature, period. We don't phony anything up. It's a straight factual presentation of what's available. Our role is to present that to the legislature and help the agency support it.

Now, the agency has to take the lead in any kind of a program change. The department director or now the agency concept, which ever way it is, somebody in that field must take the lead for the governor. Finance cannot take the lead in the programs. Finance has no ability to take the lead in presenting a new program. We support it fiscally--we give it everything that is needed fiscally. Behind the scenes, hopefully Finance has also screwed down and tattooed that agency person or department director so that they're prepared.

Morris: Maybe we could talk about a couple of examples. In Corrections, hadn't Pat Brown supported a probation subsidy idea as a way to cut down on the capital costs of building prisons?

Beach: This was one of his approaches, yes.

Morris: And then that sort of disappeared in the Reagan administration.

Beach: The Reagan administration did not pursue that avenue.

Morris: Were some of the considerations fiscal, that the projections could show that it wasn't doing what it had thought to be accomplishing, or it cost more then they'd expected?

Beach: I wouldn't attempt to give you an answer on that one. I think you're dealing, probably, with a philosophical difference in approach by two individuals. As much as anything, the rationale for why something, in this case, was changed, can be speculated. We can use it. For instance, I do know that at one time we had to show what the projection of costs were; that was one of the bases that was taken into consideration as to why they didn't want to pursue the thing further. Interestingly enough, the cost projections were no different than they had been two years before; in other words nothing changed in the cost projection.

Morris: But different people looking at the same numbers came up with a different conclusion.

Beach: Yes, that's right. You can utilize that same set of figures to say: This is a great program, I think it should be pursued. It ends where you start saying, Okay, what do you compare it to, you see? You compare it to this, this, or this, so it looks great. Or, you take that same set of figures and you can compare it to X, Y, and Z instead of A, B, and C--and it looks terrible.

Morris: How about the Medi-Cal program in which the legislature and Pat Brown and then Reagan's people were all much involved. Did Finance have any inkling that the cost projections were going to keep increasing the way they did?

Beach: I don't recall that, in the first five to six years at least, of Medi-Cal, there were any real surprises to the professionals.

Morris: The fiscal professionals or the program heads?

Beach: The fiscal professionals, there were no real surprises. You have to, again, keep remembering that the basic role of the Department of Finance is to make sure that the governor has all of the factual information available.

Changing Relations with the Legislature in the 1960s

Beach: When the decision is made, by the governor, as to what he wants to do, the role of the Department of Finance is to present that approach to the legislature.

Morris: Does the legislature deal with you and other people from Finance as the governor's man?

Beach: That has changed, of course, over the last twenty years, quite a bit. Early on, we were the only source of information, and whatever we had was available to anybody who asked. That was just the role. When you stopped cross-filing, you suddenly became much more party-conscious in California; the roles started to change slowly. And then you had the situation of Pat Brown, as governor, and Jess Unruh, as assembly speaker, within their own party, then not only did the political role change, but the power struggle between the legislature and the governors--

Morris: You mean when Unruh and Brown started disagreeing within the Democratic party?

Beach: You see, you notice that the first one was a subtle, hmm, just an easy change starting to come about when the cross-filing stopped. You then were working for a Republican governor or Democratic governor, and if the senate or assembly was of the other party, and you'd given them all the information, maybe they would say we ought to have somebody check up on you. Again, that was all part of the way it functioned. But then when you had suddenly a cross-purpose within the party in power, and that was a real power struggle between the two, all of a sudden the assembly started to develop their own people.

Beach: Now the legislative analyst, Alan Post, had always been there. The legislative analyst and the Department of Finance worked hand in glove. The information we had was theirs, the information they had was ours. Nobody ever tried to con, because we were always working from facts. You just don't. Facts are facts and they're there. So nobody tried to do any conning jobs.

Jess Unruh did not respect the legislative analyst. Alan Post was a straight, down-the-road, factual person. He did not play a political game, period. Never did in his life that I know of. Jess was a politician per se from the word go. He always was; always will be, I'm sure. He believed in the political play. To do that he needed another source of information. First, he couldn't rely on Alan to do what he wanted to do. He was out after Pat as much as he was after the Republicans. So he started developing his own internal force.

Morris: In the Assembly Office of Research, or the staff aides?

Beach: Staff aides and in the budget function, in the budget committee. The Ways and Means Committee staff suddenly started to become a full-fledged resource as well as the Office of Research. Their role was to represent Jess Unruh. That was when Bobby Crown was chairman of Ways and Means. That role is a completely different role. That one has nothing to do necessarily with what are all of the facts. That is a role that says the boss wants this done, period. Then you go about whatever means it takes to do this. That's a completely different kind of a role. That was one reason why Alan Post was not usable. He would not do that kind of a thing.

So all of a sudden you started to find that, well, we had the Department of Finance budget shop upstairs doing the presentations; you had the legislative analyst; many cases you'd find the two of them, in most cases, you found the analyst and Finance in agreement. In areas where the analyst disagreed, there were always some reasons, and it was--

Morris: Negotiable?

Beach: Negotiable. You know, those were the kinds of things that you had. Or he says, "I don't think we should do this." The governor had said he wanted to do it, and the analyst, in effect, said, "Yes, I just really don't think this is good for the state." Well, it's a matter of, again, principle, to do this.

But then we started having a third functioning unit developing over in the assembly, and that was the staff to the Assembly Ways and Means Committee, who also staffed the sub-committees. That's where you started to get killed, because the staff of the Ways and

Beach: Means Committee, representing the chairperson of the committee representing the speaker, phew! If the speaker says, "I don't want that in, or I want that killed, or I want this added no matter what it is," their role with the chairperson of the sub-committee was pretty clear. Unless the chairperson of the sub-committee had a major problem, in which case he went to Bobby Crown [laughs] and back to the speaker, the report of the committee consultant would reflect the committee consultant's proposal to the committee. Regardless of what Finance or the analyst would say. All of a sudden you started getting the power structure sitting there.

Now, over the years the Senate Finance Committee started the same thing, although, clear up even to the time when I retired, the Senate Finance Committee never became as politicized as did the Ways and Means Committee. Senate Finance, even on the sub-committees, if their staff did have some things they wanted in, they handled it. But it was a different kind of a role; they never really just blatantly would take action on the advice of a representative from their research staff.

Morris: Does this kind of negotiation by consultants come during preparation of the initial budget that's submitted in January, or during the legislative hearings?

Beach: During legislative hearings only; never prior to submission of the budget.

Morris: Is it the director of Finance who then is the advocate of the governor's point of view in this kind of political by-play? Or the career staff people?

Beach: The director of Finance appears in front of the full Ways and Means Committee and in front of the full Senate Finance Committee only, and then normally only at the first session when he presents the budget. At least that was the old way it used to be. In many years, the director of Finance never appeared at all. The director of Finance did not become involved in the mundane day-to-day operations of committee work, never did.

Morris: Would he not be involved with the governor and the legislative leadership in the informal between-hearings kind of, "What are we going to do about these things?"

Beach: I suppose if that utopia was ever in existence he would have.

Morris: Because coming up into Pat Brown, you begin to get people, I think of Hale Champion as director of Finance and, I don't know about Gordon Paul Smith, but Caspar Weinberger certainly had had legislative experience himself?

Beach: If you're talking about a conceptual idea, or if you're talking about a major program that the governor wants to put into effect or kill or modify--a major thing, you might actually have the director of Finance involved with somebody from the legislative leadership over with the governor when the governor's taking on a leadership role. But for the director of Finance to go upstairs [to the legislative offices in the capitol] was just not something that was normally ever done.

Again, remember that when this started to really blossom, you had Jess Unruh and Pat Brown who were not able to get along. You had Hale Champion as director of Finance; Jess and Hale hated each other's guts. I mean they just despised one another. Now, that relationship then will not allow you to really do much. You've got a triumvirate which one and one, publicly, kind of keep an eye together, but they really don't like one another; but then the man who has this responsibility and Jess will not get together. So you got four years of not being able to really communicate to him. What you said is marvelous utopia there conceptually, [laughs] it is great, but that just isn't the way it functioned.

Then what you had is that you have a new governor comes in of another party [1967]. So now we have a Democratically controlled assembly over here and a Republican governor.

Morris: You still have Unruh as speaker.

Beach: You have Unruh as speaker for two years, and then you've got Bob Monagan for two. Then Bob Moretti comes in, another Democrat.

Morris: Followed by McCarthy in 1974, after Moretti lost the Democratic primary for governor.

Beach: Yes, I was coming on back. Well, of course, again with Jess and Governor Reagan there was not an opportunity, and you had Gordon Paul Smith, who was not a negotiator of that type at all, as director of Finance. Of course, then when you had Bob Monagan, you did have a very close relationship between the governor's office and the speaker's office. The same party, same kind of relationship. Things were a lot different at that point. So you had two years of no real difference, harmony, ease of working together--but not a lot of control because Bob still did not have a two thirds majority, so you still negotiated. But you could negotiate.

When Bob Moretti came in, he had to take again the posture, politically, "Anything this governor wants is not worth the trash," so, therefore, publicly you don't do it. Now behind the scenes, Bob Moretti and the governor actually probably communicated as well as any two people communicate. They really were able to sit down and talk and negotiate. They had their roles, and their spots, but they could sit down behind the scenes.

Beach: But now you had Caspar [Weinberger] in there, and Cap is a very tough, hard individual. He knows the ropes, and he played a hard role. It was very tough. Caspar never would go upstairs. Cap never went up, to my knowledge, and individually negotiated. He always did it through the governor--with the governor. You find that the director of Finance as such, never actively participated in negotiations on his own. Whatever he did was through and with the governor. In other words, he'd always be in the meetings the governor would have, support the governor, but never on an individual basis.

Budget Hearings

Beach: Always at the committee hearings, the fiscal committee hearing, you would never have anybody at that hearing higher than normally the chief of the budget division.

Morris: That would be you.

Beach: That would be me. In a sub-committee hearing, I don't ever recall there being anybody higher, deputy director or director that would come in.

Morris: There wasn't anybody from the governor's office as an observer.

Beach: No. We were the governor's office.

Morris: But I'm thinking again, coming into Reagan's administration, he had a fairly sizable governor's-office staff that seemed to include people with some program responsibilities.

Beach: You say to come in just to see. I suppose what you find is in the audience there may be some people sitting back there, but nobody ever doing any presenting. Now, I couldn't speak for who came in, who went out.

As far as presenting the things to the legislature, you'd have the Department of Finance, the program-budget analyst responsible for that, and depending on the size, maybe his or her assistant, so there'd be two Finance people there normally. There would be at least one or two from the legislative analyst's office, and then there's at least two people from the program [department] side, so you'd normally have approximately six people there. On the smaller ones maybe three or four. On the real big ones when you started we would again never have more than two Finance people. If I were one, then the lower person would drop from the table, and I'd use the other.

Beach: And if Alan Post and I were there, he'd have just one person with him. So we never had more than two of our own people up there. If he and I were up there, we just had one other person. Program people, you might have, oh, on a rare occasion you might have three, but normally again, there were just two people from the department on the program. And that's it. Those are the six people. Then anybody from the audience or outside always has the opportunity to come up and speak at the podium, but what you'd usually find is you'd have two on one side and three or four on the other. That's about the presentation. The governor's office would never come.

What would happen, is we would have a committee hearing in which an issue which the governor had indicated he was concerned about would come up, and it would not be able to be moved out or you could see it was going to get killed or something in the committee; then you would ask if they could set it over, or could they continue it for you. The members, oh, once in a while you'd get a "hhmmph," but most cases they know your role. They know exactly what the problems are. They may chew you a little bit, so that they can get their quotes in the newspapers if you've got a reporter there. In fact, when you have your reporters there is when you take your worst beatings, because then legislators always figure they have to make the news, and so they do it to you--but never personally. They always are talking about, "How did this program get going," and, "You mean you're supporting this program?" But never a personal vindictive deal on the staff. The staff's staff and the legislators know that. So, if you would ask for a continuance or a postponement, or, "Could you hold this over for us," or something, they know exactly what you're doing, and nine out of ten cases, they will do that. Just saying, "We'll continue this item until next time."

In the meantime, when the hearing is over, you go back to your office, the staff comes on in, and if I wasn't there they'd say, "Here's what's happened." I would grab up the papers, depending on what issue it was at that time, and either get in with the director or go directly across the hall to the governor's office and say, "Here's the committee response; you've got a problem, somebody better work on it."

Morris: You'd take that to the director of Finance?

Beach: That's right.

Morris: So he's the troubleshooter?

Beach: During Pat Brown's term and during Jerry's term, in most cases I would directly at that time alert either Hale or Roy [Bell] if there was a problem. In fact, actually in Jerry's [Governor Edmund G. Brown, Jr.], Roy and I had worked so many years together we didn't even

Beach: have to time it, I didn't even have to alert him. It was my role to get it done, so I just would go to the governor's office and talk to whoever had to be talked to, and say, "You got a problem, here's your committee, you people have to do something about it."

During Reagan's term we went directly to the director of Finance and he or Jim Dwight carried it over. Jim Dwight was the direct liaison with the governor. Jim was the personal appointment of the governor. The entire time he was here, he was the governor's exempt deputy director appointment to Finance. Not the director of Finance's appointment.

Exempt Appointments

Beach: You see, there are two deputy-directors in Finance. Actually, there are three. One of them is the position back in D.C.

Morris: Right, I wanted to ask you how that fit.

Beach: Yes. Then one of them is the governor's appointee, and the other is the deputy of the director's.

Morris: That sounds like a potential for difficulty. It's a sort of anomalous position for both of those people.

Beach: Yes, it could be awkward, has been awkward. The thing that makes it workable is the fact that the two deputies do not carry the same responsibilities. They are assigned different kinds of responsibilities, depending upon the governor and the director. After all the director works for the governor, he or she is appointed by the governor.

Morris: Yes, you had a woman director of Finance didn't you--Mary Ann Graves [appointed by Governor Jerry Brown]?

Beach: Yes, Mary Ann Graves. I never worked for her. So the director of Finance and the governor represent the same thought, the same wave length--at least they better. That's the most important position he's got.

Morris: Yes, that's true. Again, now you're talking ideal and I'm thinking in terms of organizational theory.

Beach: Yes, that's right, that has to be there.

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Beach: There's only one person who has authority, literally, to act for the director of a department, and that is that director's exempt appointment to the deputy director spot. In other words, the deputy director who is the appointee of the director, under the law has full authority to act and sit for the director in anything that they do. That is the only person who can do that.

During Pat Brown's last two years, they made the decision that they needed more exempt deputy directors in the larger departments. They passed a bill which in effect said--because again you've got the constitution holding you up; you can make only certain exempt appointments under the constitution. You have to have them set outside the law, otherwise you're civil service; and there's only one exempt entitlement to a director. So what they did is they set up for the Department of Finance, Department of Mental Hygiene, Public Works, I just don't remember all of them now but there were about five major departments, and then about five not so large departments. On the five majors what they said was, "There will be two exempt chief deputy directors appointed by the governor." On the five smaller ones, they said, "There will be one appointed by the governor."

What that then allowed the administration to do was like in the director of Finance's office, is to have three exempt appointments, three exempt people that could come in. There's no way that they could get around the constitution and get the director to appoint all three, (and that's why the statute was set up) because two in effect were appointed by the governor, and the governor can appoint people and be outside civil service, so that's how that worked. You then had the two exempt chief deputy directors appointed by the governor, and that's why that works that way. In the case of the Department of Finance, they took one of those positions immediately and said, "We're going to use this to set up that Washington office." That's a real political one so the governor's appointee is the natural one. The deputy director appointed by the director is in Sacramento always because that's the alter ego of the director.

Morris: He does the day-to-day, mind the store.

Beach: It's the alter ego of the director. The director then, can use that person any way that he wants to--in the first place he does have the authority to sit on all the boards and commissions for him. But the other problem that you have is then that you've got the other "chief" deputy director, by title, appointed by the governor.

The governor may want certain operational functions going on. Planning, when it was under Finance, was one of the things that you had under Dan Luevano under Hale Champion. Dan was a governor's appointee, and he ran the planning office and he ran some other areas. But, what you have to do, and I was not being facetious when I said the governor and the director of Finance are on one and the

Beach: same wave length in thinking, they have to make a decision between them. In the first place, the appointee has to be at least acceptable to the director or the governor isn't going to get anything out of it--they've got to talk about it. To my knowledge they always talked, and the governor and the director of whatever department it was sat down and they talked about who they wanted as their deputies, and then they would appoint them. And, in that kind of a conversation they would also decide, "Who do you want to do what?" In some cases the director's appointment, as the alter ego, actually ran the shop, as you said. In other cases, the person merely sat on the boards and commissions and did no other complete function.

Federal Funding; Congressional Partnership

Morris: I'd like to ask you about the planning function. I'd also like to ask you about the Washington office. Its purpose was to coordinate the federal and state funding?

Beach: Primarily to obtain more federal funding for California--that's the basic concept of the office.

Morris: Going quickly through a number of budgets, it looks as if when Pat Brown was in his second term federal funds began to increase, and they really sort of ballooned in many program areas in the Reagan administration. How did you crank the federal funding into your budget process? What kind of an impact did it have on the state budget and state expenditures?

Beach: There is no set answer because you are dealing with a myriad of different types of funds and programs, so there is no pat answer for you. In almost every case Finance was quite well aware of the potential action that could be taken and followed, again through the Washington office, the actual development of that potential. During the congressional stages, the governor was made aware of whatever the situation was in that particular field, along with the others.

In many cases decisions were based, I'm sure, upon either anticipation or knowledge that something was or wasn't going to happen. It was just as important to know that it wasn't going to happen, even though it was being talked about, as to have it happen; and it would be used by the program people, (the program people were always on top of this, that was one of the roles this Washington office had, to keep the program person and Finance right on top of what was occurring) to utilize the representatives back there for this purpose. There are no bones about it. The office back in D.C. called upon the California delegation, as such, many many times to either kill something or to support it. There was no hang-up about whether it was a Republican or Democratic proposal. They just said,

Beach: "For California's good you've got to do this or you've got a real problem." Congressional politics apparently were such that the Republican/Democrat was not as important, as it was whether California got bombarded or lost something--really that would have been a problem.

You'd probably have difficulty getting people to say that in some cases, but I'll make the observation, in my years that I was there, I thought that the California delegation responded to the need of California in most instances. If they could embarrass the governor, that was fine, but not to hurt California as such--

Morris: That's a nice combination.

Beach: Yes. It's one thing to embarrass them politically and publicly and say, "You can't do this," or, "You couldn't get this," or something like that. But when the chips came down, they did not want money being stopped coming to California, regardless of who the governor was and regardless of what party they were.

Morris: By about 1969 and 1970, there were some people in the legislature beginning to say that the local match required by some of these federal programs, is costing us more; and then, the control function (that you were talking about) of processing all this money, is beginning to be not worth the money we get. Was this something that was coming out in your work?

Beach: We factually would present the information. It reached the point, where you're talking about the need of locals raising taxes to meet the costs.

Morris: Counties?

Beach: Right, counties and in some cases cities and special districts. They were finding that this load was becoming very difficult to carry.

The time when a major change started to occur this way, and when this was starting to be felt--is you have to go back and, in some cases look at the, the one person of all who I think probably is responsible for that, more than anyone else, was a California congressman out of San Francisco.

Morris: Mr. Burton?

Beach: Right, Phil Burton. Probably nobody in the country understood welfare and its related programs better than Phil Burton; and I doubt that there was a better strategist in the Congress--including Tip O'Neill, as far as being able to utilize, develop, and get something for a program that he felt was needed. Phil Burton's concept was, "You get it out to those that need it and you make sure

Beach: California is taken care of; and you let those locals pay their share to get it done because that's where it belongs." He was a very strong advocate of local match. I think that you find that that's where you really started having some of your areas that came into--

Morris: Where the money really expanded. There was a lot for law enforcement and for construction of highways, things like that.

Beach: Yes, now again, that kind of money was not necessarily matchable. I mean, it did not throw an imposition in many cases.

Revision and Expansion of Welfare Programs

Beach: I think you'll find that the real human cry from the local government is what I'd call the welfare-related areas. I don't mean just the welfare payment, it's the total package of welfare. It's an area that also was attacked quite strongly for revision--when I say attacked I didn't mean to kill it, but really it was attacked to revise it in the Reagan administration. He had a task force that he utilized for, oh gosh, it was a year or year and a half, to develop new concepts in welfare [1970]. In fact some of those people are back in the administration now although they're ten years older.

Morris: This was the thing that Bob Carleson worked on.* He is still pretty young for having ten years of major governmental experience; it's an interesting item.

Beach: He [Reagan] attacked that quite well. I was again personally very fortunate. I had mentioned to you earlier that I started out on the control sections of Finance. It was while I was there that I really had the ability to be exposed to total state government. Unfortunately, today, people can't do that, it's just much too complex, and too large for them.

I moved from control after about three to four years in that area, into the Social Welfare programs, Mental Hygiene, Corrections, Youth Authority fields. I then worked, over a period of time, in every--I carried responsibility for every program within the budget shop; and then was fortunate enough to get the assistant chief budget analyst appointment, the chief position which I sat in for about twenty years.

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*See interviews with Carleson, Earl Brian, David Swoap, Robert Moretti and others on welfare reform in this series.

Beach: I kind of fell into the right place at the right time and happened to be able to get the kind of experience and background so that I was able to be a part of most programs and know what they were and things like that. Today I feel very sorry for people because they just don't have that kind of opportunity. The staff that has come up are excellent staff, excellent people. But there's no way they can get that kind of breadth that Roy and I had. Now Roy had in the edcuation field. He was a real expert in education, that was his main forte. He did not move around like I did. I was a mover [laughs].

Morris: Education cuts across so many aspects of government operation.

Beach: Yes, and that's why he could just stay in that area. It was like, as I say with Phil--now Phil, when he was in the California assembly that was his whole life. And, being the kind of a brilliant person he was--a lot of people underestimated, I think, Phil, but he was a very brilliant man. He may have dressed a little differently sometimes [laughs], and been kind of crazy to talk to; but basically he was one smart individual. I always had a lot of respect for Phil.

When he went back there (to Congress) he started doing this developing. He knew what California needed. I had worked with him the entire time on the Health and Welfare Committee when he was here in California, and he knew what California needed.

Morris: In the way of support for people in difficulty?

Beach: Of support to people that he wanted to get it. Now when he went back to Washington what he did was to help develop some programs, from the federal level, that would meet California's need in funding purposes.

He also said, "Never will I let you off the hook, Ed." I talked with him many times. He said, "I'm not going to let you off the hook, and let you use that money for anything else. You're going to spend every dime you've been spending on welfare and I'm going to add to it, but I'm not going to let you get away with saving any money on this."

Morris: I see, okay, you couldn't transfer people from a slot funded by state money and--?

Beach: No, this would be in the direct program aids. We would put up a hundred dollars and the feds would put up a hundred dollars. He would increase the area from the feds to a hundred and twenty-five, but he wouldn't let us reduce it from a hundred to seventy-five--we'd have to keep budgeting the hundred.

Beach: He'd come in with another supportive program to add to what you had. A little small thing down here, but maybe fifty million dollars in federal monies nationwide. He knew just what it'd be because that's what California needed. We didn't have it; he'd put it in, that would fill in California's need, but you couldn't reduce a dime of what you were already doing--even though nothing else had changed on the outside. He wanted to make sure that everything he did was adding to, and never letting the state reduce anything. He was a past master at it, and he did.

All of a sudden, you were in a position where things seemed to be coming up higher, and yet the same amount of money was having to be put in, and people were getting more benefits. Then, every other year he'd slide one in that required a match--up the federal deal and all of the sudden you got matched up. The counties which carried the brunt of this, did not get the impact of that for about three to four years.

Morris: Does it cost more money and take more people to process a larger benefit per individual in need?

Beach: No. It took more money and more person-power when they developed new programs--they'd add something to a program and that would do it. Changing the amount would not bother anything. You still could handle, whether the grant was fifty dollars or two hundred dollars would not require more people or less people, that would not do it. But when they would say, "You can get a benefit for this," he would say, "We will now recognize this as a need." and it would be part of your basic, "We aren't going to reduce for it any more." That requires manpower because all of a sudden you have to re-look at and re-evaluate [laughs] that kind of thing. He would do both.

I honestly do not think people have ever given credit on these types of programs to Phil. He was behind the scenes in many many cases back there. He would not necessarily take the forefront. But from the day he went back there as a freshman, he knew how to manipulate because that was one of the things he could do best. He knew what the needs were, and of course he also, at the congressional level, started to make his own way and own friends. In fact I guess you almost don't see that. [laughs] We were pretty close at one time. He was very competent in his field.

It wasn't all of a sudden, it was a creeping thing. It was not like the Prop. 13 where we kept saying, "In two years, watch out. You're going to have a problem."* These, you couldn't say that

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*Proposition 13 was a 1979 initiative ballot measure that sharply limited city and county revenue sources.

Beach: because it just kept adding a little bit, a little bit until the counties started to realize that they had a major problem in trying to do some matching.

Governor Reagan when he came in, indicated (at least philosophically apparently) that he believed that welfare was too high in certain kinds of cases. I don't recall him ever saying that there was too much being paid into welfare. I think he always had the concern that some people were getting more than what he felt they should be entitled too. His posture was to try and modify--make changes.

As a practical matter, of course, that's when he and Bob Moretti, publicly in the first confrontation, just went boom boom-boom. At the end of the year [1971], they had reached a compromise that was one that was accepted, went right through. They both gave--

III REAGAN'S FIRST YEARS AS GOVERNOR; MORE ON BUDGET PROCESS

1966-67 Transition; Working with Jim Dwight

Morris: When Reagan came into office, in the transition period between November, '66 and January '67, my understanding is that in that transition period, his people were told that there was a 650 million-dollar deficit facing the budget. Would you have sat in on discussions?

Beach: Yes, both Roy and I did. As I indicated to you over the phone, the governor asked both of us if we would stay in our career jobs, and function as we had under Pat Brown; which was , I always felt, a very major concession for the governor. He felt, rightly or wrongly, that you could not generally trust the career people in government. He came in initially with the idea that everyone in top management--and especially the career people, should be removed because they were just going to continue that same old thing of which he was not a part. Phil Battaglia, who was his executive secretary at that time, probably was even more firm in his idea that you just could not function with career people. That was the initial attitude when the governor came in.

One has to put it in perspective. I don't think it would be fair to criticize him, saying "What a gosh awful concept to have." Without realizing in perspective-wise, understanding that he had not been in government before. He was an outsider who believed in things other than what Pat Brown believed in, did not believe in that so-called "liberal" attitude. The information from many people in the outside was that those people that are in there now are going to continue giving the funds away, "You're going to have to change them, you can't do this. Look at all those "liberal" programs, you want to kill them, you've got to get those "bureaucrats" who just want to spend state money (that have been there under Pat Brown) out." He'd had no way of knowing. I thought it was very interesting, when he became president, that you did not see the wholesale slaughter, in effect, of career people as such. The program--top philosophical people change; that's why you have changes in

Beach: administration, but you did not find that it was an immediate need to remove all career people that were in top jobs underneath. I think he realized that careers are based upon programs, and a good competent career person responds to what the boss says is their philosophy, and you develop within that role. He had not had an opportunity to know that was there; therefore, it was very hard for him to come in. And, as I say, with Phil Battaglia, I'm not sure that Phil ever accepted that you could rely upon others.

At least to that extent, when he did call Roy and I and asked us to come over to the office and talked to us, I felt it was a major concession on his part; I always have. He must have been choking at the same time he was doing it because it just wasn't what he felt, and yet he did rely on us.

One of his reasons may have been the following: We were the ones that briefed him. At the time the governor was elected, the next day Hale Champion called me into the office and said, "I have another special assignment for you."

I said, "Yes sir?" He said, "You are going to be the liaison between this administration and the new administration. And as soon as there's an appointment made, it's your function to make sure that that liaison works."

The governor appointed Jim Dwight by the end of the week. Jim Dwight was up in the Department of Finance (I recall) the Monday following the election.* Jim Dwight was the liaison person that the governor picked for finance. Jim, apparently, in the family, had some ties to the administration; again I've never tried to pursue what they were.

Morris: I think he was a friend of Mr. Battaglia's or Mr. Clark's. They'd gone to school together.

Beach: I think there was also something else with the governor because Bill Clark wasn't that close to the governor at that point. Not like he is now--nowhere near it. Anyhow, Jim was a CPA, he'd been with the Sunkist Orange Growers Association as their accountant, bookkeeper, that was where he was. He came on board and I had the opportunity then to work with Jim in the liaison--

Morris: Did you find his ideas and yours on how you do these things, were similar?

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*Dwight recalls that he reported to Sacramento the Monday after Thanksgiving, and that Governor-elect Reagan asked him to take the appointment on the previous Wednesday. See interview with Dwight in this series.

Beach: I never had the slightest problem with Jim Dwight. Many people found Jim Dwight hard to get along with. He seemed to have the ability to just irritate the bejasus out of individuals.

However, as I said, I never had any problem with Jim Dwight. Why we clicked, I don't know; but we did. He represented the governor, he represented the new philosophy. My role as a professional was not to put my ideas across. You see, I, for the majority of my career, was strictly a bureaucrat to make sure the facts, figures were there for whatever the decisions were to be made. I did not make decisions of that kind. I did not have the same kind of difficulty that many people did in working with the new administration, because both Roy and I were professionals. We worked for four governors before that, that was our role, so we could fit ourselves into what his needs were. I will say that there were some things that were started that left you a little bit breathless. You'd say, "My, I wonder if they're going to be able to function that way." But, if that's what this new governor wanted, that's our role to make sure that that was what he was able to get.

Ten Percent Budget Cuts, 1967-68

Morris: Are you thinking of things like the announcement that they were going to cut the budget 10 percent?

Beach: Yes. That was the very first thing he wanted. We suggested there were some problems, but if that's what you want to do, we'll do it. Give us time to show you why you're going to have a problem if you do it 100 percent, which they never did by the way, because it just was not feasible. The concept is there but you can't just automatically cut 10 percent across the board.

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Beach: You have to do the job professionally. There was an old saying we had that if the posture is too onerous to you personally--then get out. Otherwise do your job professionally. You just cannot try to put your own feelings as to what's right or wrong into this role, because that's not why we were there.

The chief of the budget division (which was me) and the assistant director of Finance, which was Roy's title at that point, we were both career, we knew the state. This sounds terrible, but because of the circumstances (when we came into state government) there probably were no two people that ever knew state government any better than Roy and I did as a team.

Morris: That's the reputation that you have.

Beach: That sounds terrible to say that--and it wasn't because we were so damn smart necessarily (Roy was, but not me.) The thing was that we were in the spots, and the state was small enough when we started, that as you grew up (and the state grew) you just added to what you had, but you had the chance to get the basics. Any person who did not have that initial basic opportunity could never pick it up otherwise.

So, our role was to just factually point out--the 10 percent was a great example; that's the first thing Jim wanted to do. We said, "You can say it in any way you want to say it, and if you want to do it we can do it, but you have to know that program here here, here, here, here, here--you cannot do that. You have to have a constitutional change and there's no time. You just can't get out of it."

"Now, you've got statutes. Every one of these that you want to change that has a statute involved in it, you're going to have to come in with the proposed legislation to change the statute. Then you can do it. You can show in the budget document that you propose legislation to authorize you to reduce this program by 10 percent, and then in the budget you can reduce it 10 percent based on proposed legislation. That you can do. You want to take credit for it? That's fine, but here's how you do it."

Then, we had a couple of programs that had cost-of-living in them; there are just many, many things. You come back into Mental Hygiene, we'd say, "That's fine, what are you talking about in cutting out 10 percent? Treatment programs? We just have to know what it is."

"That's fine if you just want to say, 'do it,' but get your program people in there so that they can prepare some answers for you. Don't let it hit you cold, because somebody will come in and say, 'You mean you're going to cut off 10 percent of medical services to these people who need it.' You can't afford that. So get your program people to say, 'I'm going to cut off 10 percent from the total,' and do it within some place."

Morris: Did Reagan understand and accept that?

Beach: Jim understood this. Reagan understood it with some reluctance initially, because, here again, first time, first thing, and: These damn bureaucrats now are all of a sudden telling me I can't do this. But he accepted it, and the reason for it is because the facts were there.

Beach: You weren't saying, "No, governor we don't think you should do this." We were saying, "Governor, you may do it, but you have to cover your fanny by doing these other things in order for you to do this. You can't just automatically go out and do it."

The prisons were an excellent example. You said, "Governor, you probably don't want to be in a posture where you say you're cutting out 10 percent of the guards. You have posts and every post is manned twenty-four hours a day, seven days a week on the perimeters--this kind of thing. Are you going to say you're not going to man the posts, or are you going to cut 10 percent of those?" At that point of course, with the governor's perception of what Corrections should be, he'd pound the table and say, "I'm certainly not going to reduce anything like that."

We'd say, "Well, then you better get your director of Corrections on board right away so that you have an answer when somebody says, 'How are you going to do that here in Corrections.' To say, 'I'm not going to cut out these perimeter posts, I'm not going to cut out 10 percent of the food for the prisoners and have a riot'--this kind of thing. You can cut 10 percent, but do it so you can handle it when you get your press inquiries. And your constituents of each one of these programs will be in there crying and raving all over you. You have to have your answers." They did. That's the kind of thing you have to work on.

The general concept was that Reagan cut 10 percent out of the budget--across the board. He was able to (of course, he articulates very well, and he did, as to what he was doing and everything) pop it right off the reel in the areas where somebody said, "Well, you can't do this." He said, "No, I'm talking about the total, we took out 10 percent equivalents. I've got legislation that's going to follow up here," or, "We're not going to do this kind of thing." It came across. He got what he wanted, and yet he was able to do it without a tremendous human cry about, "You can't do this."

How many people on the outside would realize that you can't do this or do that. He says, "I cut 10 percent out of the budget." You have to be very careful. If I looked back at his speeches I don't recall anything where he said: 10 percent across the board. He talked about it. "I'd like to cut out 10 percent across the board!" A lot of discussion, but that's just the political "impress" deals. There were a lot of discussions about what he'd like to do, and what would be his plan to try and do all this. But I think if you look at his message and everything, he cut out 10 percent of the budget--

Morris: Yes, that's a good point.

Businessmen's Task Forces

Morris: How about the task force on government efficiency and cost control?*

Beach: Okay. He had, goodness gracious, there were five separate groups of that as I remember.

Morris: Ken Pryor was the chairman of it. Reagan appointed him in '67 and the report came out in '68. That was the one that brought two hundred and some businessmen into town.

Beach: Why don't I make a comment to you about total business task forces. There have been three or four major task forces set up by governors in which competent, serious individuals participated. These are not in any way fly-by-night approaches, they were not harum-scarum, they were not politicized to the extent of I'm a Republican you're a Democrat concept. They all were legitimate (basically) people that served on these. Undoubtedly, the major portion of them represented their party and their thinking; but they were people who were successful in their own areas, and they came in with a zeal and a purpose to do something. This is true, although maybe there are a couple of little small areas where this doesn't fit, but I think that California, in its three real major ones, has had this kind of a process.

They have scrutinized and looked at their areas, wherever their groups were looking, through some guidance and direction of the pros in the field; because every task force had assigned to it somebody from the field, a staff consultant who then got them in touch with the people--let's keep using Corrections, it's good. The people that did that part of the first Reagan task force met with the people in Corrections, they went out and looked at things. They have to if they're going to do something about it.

The ultimate results of most of the task forces were and are a report or two reports or three reports depending on the number, all of which contain good proposals. They represent the lay-person's review of a program within state government. They do not all reflect (unfortunately) what the real world is within that state-government process down there. They all do it without the idea of trying to go out in left field. I don't remember any of the reports (and I again, was responsible for reviewing almost all of those) that really were flaky.

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*Governor's Survey on Efficiency and Cost Control. Report issued February 1968.

Beach: Difficulties within them are that many and most of the major concepts and changes and ideas that would do either a program change or a fiscal change (some of those reports dealt both ways and some would tend to only go one way--it would depend on who was chairing the committee and what it was they were looking for and what their committee felt) major changes of either dollars or program, all require legislation. That is the one weak link in trying to implement the reports of businessmen's task forces. In most of them there were some minor things that you can do. All of a sudden, the governor is faced with this whole list of things to do and somebody says, "Governor, you can't do this politically." Somebody says, "Governor, my gosh, you know that's so and so's program." The decisions then to implement are made in a different context than what the task forces did their work.

For instance, Reagan required that a report be made on every task force recommendation and that a year later a report be made as to which of the task force areas were implemented. As I recall that last report never actually was completed. I'm just trying to think back. I know it was worked on considerably and all, but I don't think it was ever actually completed.

Morris: A man named Ned Hutchinson, who had been in Public Works, and then became appointment secretary, had the responsibility of keeping track of those recommendations.

Beach: That's right. My statement was: I don't think that the final report actually ever got out any place. I think Ned worked it out with the governor. One of the reasons the final report was not released was that there were so many of the recommendations that were not implemented. They were not implemented mainly because they just, politically, were such a problem. While many of those things didn't require legislation or a statute change, nevertheless yet the governor's going to take political fire. It sounds good from the business manager viewpoint, yet when the chips come down the governor just can't do it.

What you get caught on then, is that the governor's not in a position to say, "I don't want to implement this because I can't do it politically." He never is going to say this. He can't say it, and that reason politically could be manyfold. Maybe one of his chief supporters happens to have a personal reason for something like this; you don't know what they are but he just can't say this. What you have to do is have some kind of a buffer.

I think that the task forces are excellent. One of the greatest pieces of fun that I had was last year [1983], when this governor [George Deukmejian] set up a task force. He asked Charles Dixon, the former county administrator for San Joaquin County to head it up for him, and they asked me if I'd come in and review the

Beach: findings of the task force with them. I went back and I pulled the reports from all three previous businessmen's task forces. I probably am the only one who actually had a copy of all of them. Some of the proposals that came out in this one here were exactly the same ones that came out in the first report, Pat Brown's task force.* They came out again in Reagan's, [laughs] and in Jerry's Proposition 13 committee.** I consider that committee as being about the same as the others.

Morris: That's the one Alan Post chaired.

Beach: Yes, I worked as executive secretary to the commission with Alan. It really was another businessmen's task force. It looked at all state government--Prop. 13 was just the cause of it. You could find the same thing in all four of these reports, none of which were ever implemented completely. This governor would never touch some of it with a ten-foot pole either. From the outside a specific recommendation may look very good, sound good; but if you figure that Pat Brown didn't touch it, Governor Reagan didn't touch it, Jerry Brown didn't touch it, and Governor Deukmejian didn't touch it, that's a very good indication that it is really non-political as far as party goes, but it is political because of a lot of other reasons.

Revenue Assumptions; Budget Fluctuations

Morris: You lead me to wonder whether you had a role in drafting Governor Reagan's budget messages, since deciding about what ideas to talk about is an important part of the process.

Beach: Roy and I probably did rough drafts for the director on both the director's message and the governor's message for fifteen, twenty years. I'm not saying we did them, because there was no relationship on some of them to what we drafted up. We'd draft a pretty staid statement that would allow them to put into it the kind of language they wanted. In some cases, the governor just wanted to re-emphasize something else, or the director of Finance wanted to do

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*Governor's Committee on State Government, chaired by Bert W. Levit, formerly Brown's director of Finance. Their final report was entitled "The Agency Plan for California." Brown also requested a concurrent report on these recommendations from a task force of experienced management level state employees, "Report to the Governor on Reorganization of State Government," November 1959.

**Commission on Government Reform, 1978.

Beach: something; that's fine. But I think you'll find that most of the rough--you have to have something to work from--came out of the staff (and, again, Roy and I weren't that brilliant). The staff would put together various things and we'd take it and re-capsulize it into something we felt would be at least useful for the director and the governor to start with.

Morris: I've come across references to revenue projections and budget assumptions. Do the statements that the governor makes in his budget message to the legislature derive from those original budget assumptions and projections?

Beach: Yes.

Morris: I looked for those in Verne Orr's papers. Budget assumptions sounds to me like something that we have to take into consideration this year. I couldn't find any, so I'm not clear what kinds of information you have as a starting point.

Beach: Let's move away from the transmittal letters, because they are really formalized statements that they want to use, in most cases, for press purposes and to give the emphasis they feel is most important at that time. When you talk now about revenue and budget assumptions, you really step back about three to four months in time. You go back to what is it that the administration wants to give in budget-assumption directions as the key factors or the key feelings to <u>their</u> appointees in the developing of their budget. That kind of information, of course, is developed by the director of Finance (usually with Roy and myself sitting in) and the governor, and whoever he used as his personal liaison people, to get some feel predicated upon what was roughly developed. All governors participated directly, usually with their executive secretary.

We would develop what we called a "continuation budget," which meant if you did absolutely nothing, this is probably what it would look like next year. You can reduce it, you can do anything you want to with it, but barring a change that we are not aware of, this is what is going to happen. Revenue assumptions are developed in the same way; revenue estimating meetings are held (two of them) where Finance would bring in the top experts around the country and talk to them to help determine the economic forecast. Assuming nothing drastic happens to the current economic trend, we then projected the revenue. "Here's what it looks like. Here's what your revenue picture is going to look like approximately, here's what your expenditures will look like if there's no change at all."

From that point on is where, then, the governor moves. He decides, "Okay, I'm going to have surplus money, I want to throw my emphasis in these areas." Or, "It looks like we're dead even, I'd still like to emphasize this area and de-emphasize this area." Or, a new governor comes in. He philosophically says, "I don't want

Beach: this to continue. I want to try to reduce this area and I want to put my emphasis over here, so I want to re-arrange." Whatever the outcome of that kind of thought process (and I'm sure they will call in their political people and say, "Here's what we want, how do you think this will fit?") we'd get the word back over in Finance, "Here's how we want to go with it. We want to push this, decrease this, hold these to minimals, let everything expand by workload, hold everything down. Don't let anything go up any more."

Then we send out the budget assumption letter to the department directors or the agency secretaries saying, "These are the assumptions that you will use in putting your budget together." If the governor has a generalized across-the-board concept, we'll send that out. We can send individual letters out, like to Corrections, Youth Authority, Mental Health, Welfare, whatever you might want saying, "The governor would like to re-emphasize this." or, "The governor would like to de-emphasize this."

Morris: Are the discussions with the governor's office and the top Finance people broken down by agency? For example, would Business and Transporation be different?

Beach: It may or it may not be. It depends on the situation. Business and Transportation normally would be broken down in all discussions because of their special funds.

The very first thing you'd have to look at would be General Fund projections of revenue and General Fund projections of expenditures, which indicate that there will be perhaps insufficient funds without either a tax increase or a reduction or a holding down. "What do you want to do?"

He makes up his mind, generally after a long discussion, saying, "I'm going to hold. There will be no increases. I am not going to go for a tax increase, and there will be no increases in anybody's budget. No increases, workload, nothing." All right, that's fine. Now the next question you say, "All right; now governor, what about special funds?" Special funds are never in that posture--or at least it is the exception when they are. Maybe one fund is not self-supporting, but other than that, special funds will take care adequately of what they have to cover. What do you do with them? Do you want them to progress, do you want them to expand, do you want them to get workload increases? That's the next decision that has to be made. Business and Transportation always comes into the picture at that point because then he would say, "Oh, I'm not going to let those special funds get more money or expand their programs if I can't do it in my program over here, they're certainly not going to do it there."

Beach: If everything goes and you've got all kinds of revenue coming in, and it looks like you've got plenty of room to move, there isn't even a general question in relationship between the two funds. However, if you're not going to let General Fund programs move up, then you're certainly not going to let special funds move up, in principle. Of course, you always have the exceptions. He may say, "I don't like that structural pest-control operation." Well, if he doesn't like it and he wants it cut down, we'll cut it down. [laughs] You have to fit the specifics.

For the kick-off budget asssumptions and revenue assumptions which we make early on and take to the governor, you will not normally discuss individual specifics. You have to get his philosophical feeling of what he wants to do based upon whatever those projections seem to indicate. Then you carry on after that point. When they finally appear in the budget document, it has all been set out, discussed, and worked out. The revenue assumptions are modified only by the latest information that we have obtained, and the only change to what we would originally have presented to the governor is later figures. Those changes usually are minor. So you get 20 million-dollar change in one thing, that's peanuts. [laughs] What you have had determined is, if the funds are not sufficient to do what the governor wanted, did he make a decision then to go for additional taxes? The difference between the original revenue assumption and the one that appears in the printed document will relate to whether he's decided to change some of the taxing programs--increasing or decreasing or holding the same. If he decides to make no change, then those presumptions are going to be the same ones we made back there.

Morris: Unless there have been significant changes in either the economic condition or there's been a significant thing like the Medfly four years ago.*

Beach: It doesn't change your revenue estimate a bit.

Morris: No, but it would change your expenditure.

Beach: No, I'm talking about the revenue side. The assumptions of revenue are just not going to be changed very much. The only thing that changes between the initial one and the final one really is his decision, does he want to change some of the ways of taxing--which then he would come in with legislation for.

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*1980 infestation of Mediterranean fruit fly which eventually required extensive state expenditures to protect citrus crops.

Beach: On the budget side, you have a fluctuating specific that is changing in there constantly until the day the budget is finally printed. You've got things that change and modify, because as time goes he suddenly discovers he wants to do this or wants to do that.

Even with Medfly (this sounds awful too), five million dollars, ten million dollars, you don't even take a second guess on something like that. If you can't handle a twenty to a fifty million dollar change during the budget process as you're working on it, you're in trouble--on today's things. Now, my goodness, when I started, 250 million dollars, my gosh [laughs].

Morris: In checking back, I realize that 1948 was the first billion dollar budget in California and that was earth-shaking.

Beach: That was; terrible.

Morris: Did you get involved at all in the continuing story of tax reform which sounds like it relates very much to the state budget?

Beach: It does relate very much to it, and that's Roy's speciality.

Morris: That's what I sensed, but I just thought I would ask.

Beach: I was, of course, always on the edges and would participate in some of it, but merely to keep on top of it, to keep informed. The same way Roy would keep on the edges of the expenditure side. But the last ten years of our lives there was just no way either one of us could hold everything. He concentrated on that area and I concentrated on the expenditure side.

IV CONCLUDING THOUGHTS

Changes in the Department of Finance: Retirement and Minority Hiring

Morris: Did you do anything about bringing in what sounds like it would require teams of next-generation people to be able to work together as you and Roy have worked together over the years?

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Beach: Well, one of the areas we probably didn't give as much thought as we should have was to develop a personnel policy that would allow the department to continue to function over the years. We had two major situations that occurred. One of them, of course, was the attrition of age, and unfortunately (I'm sure it is so in many businesses) we were in the posture that a large bulk of our people had come on board right after the war, in the late '40s and early '50s. That then tends to have retirements come along about the same time, which is one problem that you have to face over the years--you don't face it for quite a while but when you do, it's pretty horrendous on you. The major factor that we faced was that Finance was looked upon (and I hope still is) as probably the greatest training ground for management people in the state. If you looked, say five years ago, you would find that at least 70 percent (I would guess, easily) of the career people in the state in top management jobs, came out of Finance.

Morris: That's amazing. If the linkages continue, it's a remarkable information network.

Beach: Yes. Of course, the reasons I suppose are manyfold, but Finance did utilize, hopefully, the personnel and management tools to assure ourselves that the staff was competent--and not only competent, but tended to be a little more than competent. The people that could not meet the standards were gently but forcefully taken care of by suggesting or transferring into positions where they could operate in other spots.

Beach: The training was rigorous. The training was very hard and the hours were hard. Finance was a very tough place to work. It was probably the hardest working area of any in the state.

Morris: You're talking the '50s and the '60s then?

Beach: The '50s, '60s, and early '70s. The rewards were significant, though, to the person that did it. In fact, the people coming in could see, once they'd been there, where they were going. Either they moved up within Finance, or they saw, "My gosh he was in Finance, she was in Finance."

We started early on. We were one of the first of the professional units to really go for both minority hiring in the concept of other than WASP, and for women. We started with women hiring early, and we were very fortunate in our ability to pull in minorities. We could never keep them--one of our difficulties again is that we'd get the minority and we'd train them; then the departments on the outside who had not been able to do this, or hadn't done it, suddenly get the pressure on them, and our person "phoom" goes on over there.

Morris: Transfers to a new department and jumps a few grades?

Beach: Yes, oh yes. Perfectly all right, but it always meant that we were scrambling because our quota always looked bad, because we could never hang on to anybody who was going on through. [laughs]

Again, I told you how to make a clock instead of what time it was when you asked me the question, "Were we prepared for it?" I don't know, we tried, but that is just not something that you can do. We've had many people there that we hoped would work out as teams, but you can't ask people just to stick around and stick around. For one thing, you had to get somebody in the right age group to be developed, and the right personality mix. It just is much easier to conceive than it is to produce. [laughs]

Morris: I understand. Its not that easy to do.

Beach: No. We consciously tried, and I think that's all that can be said for it. I never had a qualm. I've never looked back and said, "Oh gosh, you should have started, or why didn't you do something like this," because it sounds self-serving, but we did have good (I think) personnel practices. I had good people with me who were interested, who tried to do things--a tremendous mixture. Finance was a hodge-podge of every conceivable background that you could imagine.

Morris: Do you recruit from public administration schools, that sort of thing?

Beach: The last ten and fifteen years we have been, yes. Now things have become more specialized and you're looking for people who have had a different background that have had some good training to be able to come in.

But if you look at the group from the early '50s, you would find that the people who have been retiring in the last five years or so had a background of everything you could possibly think of. I think this is very interesting, in that you're not looking at a profession that required at that stage a formalized background of something new. What you were looking for were hard-working people who had common sense and ability, and who could then adapt and fit in--which is exactly what happened. They expanded with it, and those that had it just continued to move. Those that didn't, we'd kind of move them over. There was no set background at that point. Today I'm sure if you did the same conceptual idea of taking those that have graduated out of public administration, if you look at their individual backgrounds prior to the time they went in, you'd find they probably come from all walks and types too.

Evolution of Budgeting

Morris: Are there any things that were particularly important to you in the development of budgeting in the sixties and seventies that we haven't touched on in exploring these ideas?

Beach: I've rambled an awful lot with you and I'm sorry.

Morris: No, you've covered all the topics on my list.

Beach: I think that what one must realize, and I'm sure you have because you've been looking at the history, that budgeting has evolved (as have so many professions). What started out in Fred Links' day and what is in existence today represents thirty to forty years of change. I think that's good. We should never stagnate. If you do not continually move with the times and try innovation and change, you're going to fall by the wayside and become obsolete. And the last thing that the state needs and the governor, because that's what you represent, is an inoperative function that doesn't produce what he or she needs. You have ups and you have downs, you've got trials and tribulations in every walk of life. I think you'll find the Department of Finance has had its high points, it's had its low points. I think you'll find that the budget function has had its high points and its low points. Yet, if you look back, it has been a process that has evolved--it's gone on some side roads, come back again, picked up the main path, gone on--

Morris: Would you put program budgeting on a side road?

Beach: I'd put program budgeting in quotes as a side road. I'd put functional budgeting as a side road. Over the years there's probably been fifteen different names applied to different approaches. Each one is a modification of what is just a good solid concept of budgeting. Which is to review, to process, to evaluate, to guarantee that the policy decision maker has the information that they need, and then to present it in the most practical way so that the legislator who is going to have to vote on it understands what it is that they're working on and what it is that it puts out.

There is no set way of doing it, my goodness gracious, you've got fifty states; every one of them does it a little bit differently. Every one, if you go back and look at the history of them, has done it differently. I think you'll find that New York, Michigan, and California--and Hawaii in some cases--have probably been as much in the forefront as any of the states have been. It doesn't detract from the fact that maybe Arizona went off one year and did something new, they really tried a different approach (when I say new, a different approach is the same thing). That worked out great and maybe other people kind of picked up from them. They've all had something to do with it.

Morris: Let me ask one last question and then I'll depart. What you said earlier about no one person in the Department of Finance any longer can really have a grasp of the whole thing. What about an individual legislator coming from a legislative perspective trying to deal with the whole process and documentation?

Beach: No. The closest you're going to get probably, is the current chairman of Ways and Means and probably Willie Brown. He was chairman of Ways and Means for a good many years. I think that at the present time, the chairman and Willie probably are only two individuals in the entire legislature that have the chance of really being familiar with all of it. There's no way any one person can stay on top. What you have in both cases is a tremendous staff underneath, so that when a problem comes up, they call on the staff; the staff gets the answers and they will have it. But for them being able to pull it on their own--I mean who can just say. "Let's see now, bap bap bap bap bap bap boom!" Outside of Willie and the chairperson, that's it.

Morris: Does that mean that they then have to function within a framework of the same budget assumptions and revenue assumptions that you were developing with the governor?

Beach: I think they all basically move within the same circles, so to speak.

Morris: But that's the only touchstone they have, other than the work they've done on their own individual committee areas?

Beach: That's right.

Morris: That makes the decision making a much more complicated process.

Beach: Yes; yes, it does. What you are tending to find, I'm sure, is that more and more reliance must be placed upon individuals--with the "s" on it rather than an individual for information. The state is so large that it can't be put together with ease, that's all. This is no deterrent to any of them. I'm not sure, Willie Brown may say he still has a grasp on everything there is, and I wouldn't argue with him because he is a--

Morris: He's got a large personal staff too.

Beach: That's part of what the basis would be, and yet he has probably got a far better grasp on the total problems of the state, but not on the budget total problems. That's where your differences are coming in now.

You were asking me about the budget, and I really don't think that there is any one person now who has the kind of exposure that would allow them (just because it is so huge) to have it. You can't take away twenty years of growing up with the state growing up. You see, that's where the problem comes in. Now the person comes in, came in the middle of this or something, and has a very difficult choice. How many people who work with the state now (I'm sure there are still some) but just ask: how many people have visited every state facility in the state? Not just visited, but actually toured, gone through, or spent time at them?

Morris: That's the whole operation side which we haven't even touched on.

Beach: Right. Yet, in budgeting and reviewing, you have to rely upon the person who has done that. So now you have to take the person who has corrections, youth authority, the mental health fields, who has been able to do this--but they haven't been able to hit all the park and recs facilities and all these other kinds of areas. [laughs]

Morris: Thank you, I've really enjoyed this and I've learned a lot.

Beach: I have enjoyed it too, and I hope I haven't just given you a lot of mish-mash.

##

Morris: Where would I look for some record of what the budget assumptions were in specific years?

Beach: Well, often those were not preserved. They reflected the uncertainties or trial balloons of the initial stages of the budget process, and generally the idea was that it was just as well not to keep a record of the differences of opinion once the decisions were made. There might be some indications in preliminary Finance reports early in the budget year.

Morris: At what point were the budget assumptions discussed with Governor Reagan? Who in the governor's office kept track of the budget process for him? Mr. Meese? Sturgeon or Steffes, the legislative people? Don Livingston, the program secretary?

Beach: Normally early September so that the direction letter to departments could be sent by the middle of September. Nobody as such in the governor's office kept track of the budget process. This was the responsibility of the director of Finance. Smith used the executive secretary to some extent (Remember, Smith was not there too long). Cap worked only with the governor. Verne Orr worked with Ed Meese.

Morris: We didn't talk much about Verne Orr as director of Finance; how did his approach differ from Gordon Smith's and Cap Weinberger's?

Beach: Gordon Smith was generally out of his league as director of Finance, hence his short term. Cap was self-assured, confident, and a human dynamo. He kept his secretary and two typists busy (including a lot of overtime) his entire time as director. He worked only with the governor and considered the director of Finance position more important than any other, including executive secretary. He had the stature to make that approach stick.

Verne Orr did not have a direct personal relationship to the governor. He felt Ed Meese was Number One after the governor and worked only through Ed. Verne was a good administrator, but not a forceful person. He tended to be the neutral person during many of the infights but would support anything that Ed Meese wanted. His work approach was relaxed and he did not drive like Cap.

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Government History Documentation Project
Ronald Reagan Gubernatorial Era

Roy M. Bell

REVENUE POLICIES AND POLITICAL REALITIES

An Interview Conducted by
Gabrielle Morris
in 1984

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I DEPARTMENT OF FINANCE BUDGET OPERATIONS IN THE 1950's

[Date of Interview: 29 August 1984]##

Higher Education Planning; Finance Staffing Innovations

Bell: Did you want to start with the background as to why I ended up in the Department of Finance?

Morris: Yes. I think that's a very interesting story, always.

Bell: Well, I came out of Stanford with an MBA, and I went to work for Lockheed. I thought I would stay in private business because when you get an MBA out of Stanford Graduate School, you don't ever think about going into government. That's the last thing you might do.

After the war, my then-wife moved to Sacramento. When I got here, I couldn't find a job anywhere except with state government. I wanted to eat, so I took a job with the Department of Finance as an auditor, which would use my experience as an accountant at Lockheed.

The progression then was simply that after about eighteen months, the people in the budget shop in Finance wanted to pick me up as a budget analyst, and I moved over to the budget side. I was there until I retired; I just moved up the ranks. I think I had every job there at various times.

I think it was about '57 that I got to be chief of the budget division, at which time we spent quite a bit of time converting the budget shop from accountants to budget analysts.

##This symbol indicates that a tape or a segment of a tape has begun or ended. For a guide to the tapes see page 47.

Morris: Whose idea was that?

Bell: Bob Harkness. We thought that in the long run we needed that type of people rather than just people who could add figures up.

Morris: You were shifting more to what do the numbers mean--?

Bell: Yes. We needed to know what numbers to use in order to match what was needed. We had to have people who could understand what was needed, more than just the dollars.

Morris: Could you give me a for-instance on that?

Bell: Oh, for instance, at this same time--we have sort of an overlap here because after World War II there was first the large growth in the college and university system because of the veterans coming back; then they also created something called the baby boom. The baby boom eventually got to the public-school system; but in the meantime, they also formed the background from which we could see, through our population-estimating unit, that we would eventually have to also expand higher education significantly.

We realized that we needed people who could intelligently sit down and decide what kind of institution you need; if you're going to have more colleges, say, how many professors you're going to need for the type of instruction they have. You might almost say that you needed to develop some sort of staffing ratios, rather than just it costs $1,000 per head to run a college, and you don't know why and you don't know anything else about it. You have to decide whether you should start a four-year college or a five-year college or what.

Morris: Or a two-year college.

Bell: Or a two-year. We started a lot of two-year colleges.

These types of people really have more analytical ability. You need more analytical ability to do this than just a plain accountant or auditor, which a lot of our people were at that time. They would go around and they would say, "Well, we spent X dollars on that last year. And so, on a price and population basis, they should have Y dollars this year." And that's it; there was really no feel as to whether the money was adequate, whether what you were doing was adequate, or just what.

This is why we tried to transfer over. It took us about four years. Four or five years. We shifted some people; we retired some people; and we got some people so mad at us that they quit.

Morris: What kinds of new people did you look for?

Bell: We primarily went out to the university campuses and asked for people with analytical ability; not necessarily people with government experience or with accounting experience. We didn't even ask for accounting experience.

We tested them all with a methodology the Personnel Board developed to determine analytical ability. This was a very comprehensive eight-hour exam that they would take. The Personnel Board did it for both our own entering class and for themselves, because they were looking for the same thing. They cooperated with us in this.

Morris: Analyst has become almost an entry-level kind of a job description in business as well as government.

Bell: We started this in the '50s. I know that it's just as popular in business now, but I don't know whether it was then.

After we got everything turned around that way, we were, I think, much more able to cope with the tremendous growth that was happening at that time.

Morris: You were building projections into keeping track of current expenditures and programs?

Bell: Right. We had both an economic-forecasting unit and a population-estimating unit in Finance ever since World War II. We built them about this time because we saw we were going to need them. Not just a revenue-estimating unit, but these other things which are necessary to know where you're going.

I think this is what allowed us in advance to see what was happening in education, which was at that time by far the fastest growing element in government. [Governor Earl] Warren was strong on starting new things. Goody [Goodwin] Knight was happy with the ceremonial aspects of the job, so he just let everybody go to where they wanted. Both of them had strong support for this Department of Finance, so we had a lot of strength in what we were doing. We could just about dictate what was going to happen on these things.

We negotiated things like staffing formulas and campus locations, whether you start a med school or nursing, or just what, with people like Clark Kerr, the head of the university. Well, the state college system was under Education at that point, and Education was under the superintendent of public instruction, who felt that most of his support came from the public-school system.

Higher education other than the University of California was almost a secondary interest to him. The junior-college system--not community college at that time--

Morris: Were the state colleges under the superintendent of public instruction at that time too?

Bell: Yes.

Morris: As teacher-training institutions?

Bell: Originally it was normal schools for teacher training, numbering six, under the superintendent, at that time, Roy Simpson. By the time [Wilson] Riles came along as superintendent, almost all of the emphasis was on the public-school system K-12. We at the Department of Finance were encouraging the junior colleges to set up a community-college board in Sacramento, so we could deal with them easier. We had all these people all over the state and no organization to help deal with them. Here we were trying to support them with state money.

I can't recall which governor that was. I think that may have been Pat Brown. The department was strongly doing that.

Morris: Pat Brown speaks with pride of the reorganization of the state colleges and setting up the California State University System. Would that have been a recommendation from the Department of Finance?

Bell: No, I don't really think it was. I'm not sure where that came from, to be very honest with you. It may have come from the college system itself.*

We were a little bit leery, because we saw a conflict and perhaps an overlap; a duplication of effort between the university and the state college system on particular doctorates at that point. We've always been willing to say okay for a five-year college and masters. Hopefully, the Master Plan for Higher Education at least settled the fact that the university only did certain doctorates with the state system doing others, as the university sort of dictated. Maybe that took care of the duplication of effort we were worried about.

The systems all just grew like wildfire. While they were started earlier (Pat Brown really saw most of the big growth there) they continued a little bit under Reagan.

*See Regional Oral History Office interviews with Roy Simpson and Alex Sherriffs on this point.

Implementing Governors' Policies, from Earl Warren through Edmund G. Brown Jr.

Bell: These were some of our high priorities. As a Department of Finance that is supposed to try and hold government costs down, we found that, since we worked for the governor and not the legislature, we were supportive of these types of growth because the governors wanted it. That seems strange, doesn't it?

Morris: Well, it's interesting that you felt that way, because the view outside is that Finance is always telling government departments to spend less money.

Bell: That's right. That was our posture. But if the governor wanted something, our job was to get it for him. We felt that we should try and get it with a good quality of service at the least cost, which isn't what he was necessarily saying. So we did have a little bit more concern about the cost than the governor did but we still wanted to get it, and therefore we had to negotiate with a lot of legislators to do this sort of thing. A governor also requires legislative support, even then, or in the future, to keep a program going; so it was important that Finance work closely with the legislature all through this whole period.

Morris: What about the question of, "The governor wants this, can we afford it?" Was that a question that Finance was involved in?

Bell: After World War II, which is when I came in to work for the department, there wasn't too much expenditure going on, and there was all kinds of money coming in from the revenue system. Therefore, the problem that Finance had at that time was hiding the surplus. That's the best way I can describe it. We spent a lot of time putting surpluses away in little pockets where they wouldn't show.

"Here, let's put $30 million in this special pot to apply to the Teachers' Retirement System, because they need the money. But don't give it now, just put it in a sort of fund, and we'll hold it. Let's set $100 million up for post-war unemployment reserves. You never know, we might have a big depression after World War II, so lets set it aside and be cautious." It never comes, but that's all right, you've got $100 million stashed away.

We had to have a capital-outlay reserve, so we spent a lot of the surpluses upgrading, modernizing, and just plain renovating the hospitals, the prisons, and the existing colleges and universities, because they didn't get any treatment during World War II. A lot of them were pretty badly run down. So a lot of the surpluses were spent in that way.

Bell: Governor Warren says, "I would like to start a new Department of Public Health for $5 million." When he tells the Department of Finance that, we don't question it. Of course, we had a lot of 5 million dollars to spend, so the question really at that time was rhetorical, because we had so much money we didn't know what to do with it all.

During the war, Warren insisted that the taxes be cut, so that the pot didn't build up too much; but after the war he let the taxes rise, so that they would have enough money to expand the government and take care of all of the privations that World War II had caused this state.

I would say under Knight things leveled off. We didn't run any tremendous deficits, but Knight was also not particularly interested in rocking the boat on anything. When he first took over when Warren left, his first injunction to Finance was to cut the labor department, being a good conservative Republican.

Morris: That being the Department of Employment?

Bell: At that time, the labor department was Industrial Relations. It didn't work. We probably made a half-hearted effort. The legislature simply wouldn't go along. I don't think Knight was that concerned. He just felt that as a conservative Republican, he should make that gesture.

Morris: John Peirce was his director of Finance, wasn't he? And John had come from the taxpayers association?

Bell: Yes, except he came out of the Western Oil and Gas Association too, so I would have expected something more in that area than in the area of labor; except it could be that in their experience they had had a lot of trouble with unions. The unions were interested in the Department of Industrial Relations, and it could be that they were just trying to get back a little bit.

I can't honestly tell you anything that Knight did that was tremendously significant on his own efforts. He had a whole bunch of people still left as department heads that Warren had put in who were tremendously competent and who also were tremendously interested in their programs. The state forester was a dedicated forester. The guy running the prisons was a dedicated prison man.

These were all good people. Warren appointed them and, as far as I know, Knight didn't replace too many of them. He said, "Let all these people run their departments. They're all good. They know what they're doing. Just tell them to keep me out of trouble." And so they did. Finance more or less went along too, and we sort of had a few years of just going along.

Bell: If the economic curve showed less money coming in, we might pull things tight, or if there was more money, we would let a little bit out, but it was generally a pretty quiet time during Knight.

Knight and [William] Knowland got mixed up in a political hassle right at the end of Knight's term. [1958] Knowland used his power to get Knight to run for the U.S. Senate, and Knowland would run for governor. That really bombed, as you probably recall. Right at the end of Knight's term, he was replacing the people in his office because they were trying to get other jobs, because they're all politically appointed.

So, he moved Ed Beach, who was our number two guy, in to help him as his departmental secretary to make sure that all the departments kept running properly until the end of his term. Ed did a very good job of filling in there. It also, I think, indicated that the governors were still looking at Finance as their department.

There's a reason for that, and that goes through Pat Brown and I think it goes through Reagan too, and definitely [Edmund G.] Brown, Jr. The Department of Finance is the pocketbook of the state government. The only way the governor could control everything in the state government is through the pocketbook. Therefore, that's his best control of everybody.

Finance doesn't work for anybody else. We don't have any major program dedications like these other people do, so our loyalty goes entirely to the governor. I think most of them realize it, and therefore they lean on Finance more than they lean on the other people. Perhaps Reagan pulled off a little bit, because he accepted Finance only as, perhaps, one-fifth of his cabinet. If four people voted against the director of Finance, the director of Finance lost--this sort of thing.

But Reagan was basically conservative, and he didn't believe in spending a lot of money. Therefore, Finance was not unpopular with him.

Growth of California and State Government; Population and Economic Forecasting

Morris: When Reagan came in, the papers, and now the texbooks, are full of comments about the dire state of the state deficit. Had that been something that Finance had been working on previously?

Bell: Maybe I'd better just touch on the fact that the eight years prior to Reagan were Pat Brown. Pat Brown basically was in an era where he wanted California to be the number one state. All of our statistics were showing him that we were just about the number one state. He wanted to get there. He also felt that government must grow, to grow with the rest of the state.

He had some relatively large projects underway, like the State Water Project, which would help. The expansion of the higher education and the lower education levels was probably very vast under his eight years, '58 through '66. We spent a lot more emphasis on economic and population forecasting in our department. We strengthened those areas in the department because he wanted that. He liked it. We were dealing with a lot of the businesses of the states on that basis. Therefore, we were playing, perhaps, a much more significant role under Pat Brown than we had with the other governors to date.

He did have a little problem. He had a problem with [Jesse] Unruh. Basically, that was over control of the party campaign funds. Unruh was just taking the power in his own hands creating that assembly speakership role that we now know. Part of that time the legislature was not particularly strong. Although there was strength in the senate, they more or less went along with the Department of Finance, and Finance went along with the state senate pretty well, so we were--

Morris: In the Hugh Burns era in the senate?

Bell: In the Hugh Burns era, particularly. We felt they were largely people who were more interested in the state of California really as statesmen rather than just as partisan legislators. Most of them were, because many of them were the most important people in their region. Of course, this was before "one man-one vote," and largely people in the senate represented large specific areas of the state, like the northern mountain counties or the central valley.

Because of the fight with Unruh, Unruh kept Brown for six of his eight years from ever getting a permanent tax increase, even though we needed some increase for the growth that was going on.

Morris: The department statistics supported the need for increased taxes?

Bell: So every time we would walk in with a price list on our hands and every time we would end up at the last minute with a compromise in our revenue bill, which instead of giving you a permanent tax increase, always gave you a one-year tax increase; which meant you then had to come back. You're building an expenditure base based on that revenue, and next year you don't have it. So that guarantees you have to come back.

Bell: That's sort of clever, I would say, on that point, because he always held Brown hostage, at least to that extent. So we used to use the senate to fight these sorts of things because we were always in the governor's camp on that respect.

Morris: You needed to be able to plan your expenditures and know you had the money to--?

Bell: That's true. We used to only forecast about a year ahead on money. We used to forecast quite a ways ahead on population growth and needs of this nature, but basically from an economy and revenue-production standpoint, personal income, that sort of thing, we were usually doing it on a one- to two-year basis. The five-year projections hadn't shown up yet. When they did, by the way, we fought them tooth and nail because we think they're as phony as you can get.

Morris: Statistically they don't hold up over a five-year basis?

Bell: No! After the first or second year, you create whatever figures you need to show that you're okay for five years, and nobody can tear them apart. It's ridiculous. You say from the third to the fifth year, we will make the assumption that the business cycle will remain exactly as it is.

Morris: And if so, then thus and so?

Bell: Yes. And if so, then this is going to happen. Our population needs will be such and our program needs will be such and therefore our costs will be such. Inflation will be exactly as it is now, or what it was over the last ten years, which is meaningless. Since no one else had any better measures, that's what it was.

Morris: The way you describe it, that makes good sense. In that case, why did a five-year projection come into use?

Bell: I'm trying to remember who did them first. I think Cap [Caspar] Weinberger did the first ones. I can't really remember, but a lot of the pressure came out of the legislature. They thought that this was going to be great, that it was going to prove something.

We did some, but we weren't very proud of them. As I recall, the first one I gave them which was in writing, I explained to them that in my opinion the last three years were just guesswork.

Morris: Do you remember when you did the first one?

Bell: No, I can't remember. I'm embarrassed I didn't look it up. I didn't ask anybody. I suppose I should have called somebody down at work to ask them.

Morris: Listen, those things are the hardest things to find.

Bell: They really are because, as I recall, some of what I was doing I was turning into the fiscal committees on pieces of paper like this. They probably lasted a year and were thrown out. I guess because I disliked them so much, I didn't like to make them permanent.

Morris: Make them a document?

II SHORTFALLS AND SURPLUSES DURING THE REAGAN ADMINISTRATION

1966-67 Revenue and Cash Flow Problems, Accrual Accounting

Bell: I was hoping that they would go away. Anyway, that was Pat Brown's problem. At the end of his term, I guess it was for the '66-'70 budget (because halfway through that Reagan comes in) I made the analysis of our sorry revenue and cash-flow situation for Hale Champion, who was my boss. I said, "We're $250 million short, and there is nothing we can do from just a workload basis without any new program at all, just what we call almost a bare-bones budget. There's just no way to do it. You have to cut programs or go for taxes."

Morris: This is if the legislature didn't renew those revenues for another year?

Bell: At that point they hadn't. We were building the next year's budget, and in December we were caught. So they had a big meeting of all the Democrats in the legislature and the administration, and they decided that they didn't want to cut any of their nice programs because they liked them all too much.

They didn't want a tax bill, so they said, "Come up with something." So I came up with a stupid suggestion which I had read about somewhere, which I didn't really know much about, that although business accrues its revenues, the state didn't.

They said, "Fine, produce us a revenue-accrual program that will produce us $250 million dollars." So I pulled together two or three of the leading people from the various Price-Waterhouse types of places, and I sat them down.

I said, "Within a month, I want a revenue-accrual system which the top CPA firms would say is okay, patterned after private industry."

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Bell: They came up with a plan, which had to go through the legislature because the present law told us that we couldn't accrue anything.

We went through the legislature and had a lot of fun doing it. We had all kinds of storms and everything, but we got the legislation. It ignored one thing. We were at that time also critically short of cash-flow. Our expenditures were heavy at the start of the year, our revenue came in at the end of the year. Almost all of the personal-income tax at that time was collected in April. That was one of our biggest taxes.

Most of our biggest expenditures, like schools--we started schools out very heavily in the fall, so they would have a lot of money for the rest of the year. I also tried at that time to get the legislature to shift some of the expenditures more evenly throughout the year. I just couldn't get anywhere with them, but I tried.

Morris: The accrual system--see if this is what accrual system means: You figure that in November you're going to get this much money in, but in September you need to make these kinds of expenditures--

Bell: The people of the state of California will owe us X dollars in taxes. They may not pay us all those X dollars this year. They may pay part of them next year. We'll count them all as revenue earned this year, even though they don't pay it. They are then on accounts receivable. They owe us that money.

Morris: So that we can spend against that account receivable?

Bell: And we would spend against that account. Now, if you spend against accounts receivable, you don't have any cash to pay the bills. That's a cash-flow problem right there. We had magnificent ones. Between July, which was the start of our fiscal year, and December, when we finally eked out a tax bill from the legislature, I think I had borrowed every nickel from every special fund, and every pocket in the State of California. I had a standing deal with every major accounting officer in the state that before they put through any bills, they had to call us to see if we had enough cash to pay them that day, because the day that they couldn't pay the bills, the next day the controller would tell the treasurer to put out registered warrants, and we could no longer sell bonds. It would wipe out our credit; primarily our ability to sell bonds, in this case.

There was an alternate solution. We could do what local governments now do. They issue revenue-anticipation notes that run for three months or six months until the taxes come in. So I had legislation to do that, and basically they tied us right tight to guarantee that the governor would take his feet out of concrete and

Bell: go to a withholding system. This, obviously, would solve the cash-flow problem because it would move all those great gigantic April collections up to the start of the year, and come in all through the year.

Morris: And spread them out through the year.

Bell: Yes, just like our expenditures were. They shifted a few public-school apportionment chunks for me too, so that that evened out the expenditure side of all of that.

With those two we could live. I think that, the legislature, also in '71, forced us to take something called a tax on preference income. Because the year before, I believe that Governor Reagan had declared that he had not paid any income taxes. So the Democrats insisted on creating a plan that would guarantee that anyone with big chunks of money could not write it all off without paying some kind of taxes, even if it's a minimum tax, which it is. They had to start that, and that really was just digging--

Morris: Why did it take three years to get the new governor to change his mind and agree to withholding tax?

Bell: I really jumped the gun on revenue, because revenue is sort of a story all by itself. I really should start with the fact that when Pat Brown got his $250 million solved by the revenue-accrual system, it then created a tremendous--it was a one time pick-up--deficit in the following year, which was the year that Reagan had to face, because that was his first year in office.

He was going around the state during the campaign telling everybody that the $250 million deficit had now grown to 350 or $400 million, or something like that. Since we didn't know who was going to win the election, Ed Beach and I had put together what we called a normal-workload budget, without any increases in it from the standpoint of new programs or things like that. I don't think we even had salary increases in it, just strictly a price and population type budget.

Transition Decisions; 1967-68 Budget

Bell: Then, when Reagan got elected and got up to Sacramento, he called us over, and the two of us went to talk to him with trepidation.

Morris: Just you and the governor alone?

Bell: Ed and I walked over, and they had just sent an accountant from Sunkist up, named Jim Dwight, to be deputy director of Finance. They didn't have a director of Finance at this time. So I think Jim went along with us just to hold our hands, so to speak. We sat there and told him that the budget we had put together showed that that $350 million had compounded over the next year to $700 million, because it was also getting to be a recessionary type of dilemma.

All Reagan could say was, "It's just twice as bad as I thought when I was campaigning."

We said, "What would you like us to do?"

He sat there and looked at us and he said, "Just--". What is it? Something, cut and trim?

Morris: Squeeze.

Bell: Squeeze, yes. That was where that phrase came in.

We went back and we sat down with Jim Dwight and we said, "Gee, we're within just a few days of putting the budget out. What do we do?"

Jim came up with the idea of saying let's just put a flat ten-percent cut in the budget we print, because we don't want to say we want new taxes. So he did that. The legislature just wouldn't accept it.

They would say, "Well, where are you going to take the cuts? You're not going to take ten percent off everybody. You can't. Some of them are constitutional. Some of them are statutory, and you can't do it."

So we said, "All right, we'll go back and make another budget." At that time, there was another deputy director, and he was an excellent man. His business was buying other businesses. You know, this type of person. He knew what he was doing.

The new deputy director and Ed Beach sat down, and went through and built another budget between January and April [1967]. We printed it and gave it to the legislature. That was acceptable to them, because it delineated all we could do in terms of cuts; indicated some things that we needed more money in, because we had to have it; and in effect indicated that probably we needed a tax increase. That was the first time we had said anything like that. We didn't want to.

Morris: Even though you had been working--

Bell: Well, I think we said, "Either a tax increase or program reductions as the legislature sees fit." Or something like that.

Morris: To make permanent the one-year-at-a-time increases that Pat had been living with?

Bell: We did not suggest any tax increases in that budget. We just indicated that there might be some needed. Now, because of that, although the governor did want to get rid of the revenue accrual, because he knew by that time it was phony--I had a little presentation I gave him which shocked him a great deal as to how bad it was. And it was, too.

Morris: Even though you had come up with it as a stopgap?

Bell: I came up with the idea, but I had to tell him the truth as to how bad it was.

Morris: You weren't proud of it?

Bell: No, I wasn't too proud of it, but it did make a good story. I even told the legislature. They were shocked. They said, "How could you in Finance do this to us?"

Finance Director Gordon Paul Smith; Legislative Tax Packages, 1968-1970

Bell: The legislature then put a tax increase together, working with [Gordon Paul] Smith, who was our first director of Finance. He came in late, because they had trouble finding a person who would take the director of Finance job under these adverse conditions.

Morris: Well, there was some talk too, wasn't there, that Reagan had said that Alan Post would make a good director of Finance, and that Caspar Weinberger was obvious, but the conservative Republicans didn't like him.

Bell: That was the problem. Cap was a moderate. Everybody knew that Cap would have been the logical choice but, right at the start particularly, the conservatives around Reagan absolutely resisted it. They said, "No, he's too moderate for us. We can't have him. Our job is to get in here and slash and trim and cut government right down to the bone."

Cap got passed over the first year, and Gordon Paul Smith came in. He was an administrative analyst not a finance expert. I really liked Gordon a lot but he had one weakness, which he may not admit

Bell: to, and that is that he was subject to praise to the point that if you praised him the right way, he might agree with you, while if he took a little time to think about it, he might not.

He decided that he would personally work the entire revenue package with the legislature. This was the big legislative thing of that entire first year, 1967, when Governor Reagan took office. If you don't mind me saying so, and I hope Gordon will forgive me, I think the old pros in the senate knew just how to deal with him, so I think they took him on some things. Not so much for that year--because what he was after was to solve that year. This program did solve that year, but it did some other things, and I'll talk about that after I explain what they did.

First of all, the governor wanted to get rid of the accrual system, so Gordon had to push that. The legislature said, "Okay, we'll do that." They got rid of most of it. Not all, but almost all of it. Then, they also started a senior citizens property-tax relief program, because there was some publicity in the paper about poor old people who are being thrown out of their homes because they couldn't pay their property taxes. You may have seen some of those things in the paper.

Morris: Yes.

Bell: It wasn't very big, but it was at least a start. You know, "Let's give them a few dollars to help them." That type of thing. The poorest of the poor got some help out of that.

That really was the start of anything on property-tax relief, anywhere. It started with senior citizens. Then, they got around to what they really did to us. They increased the personal income tax from seven to eleven percent, the present one we have now. They also shortened the brackets, or shrunk the brackets, so that it now is extremely progressive. The more you make, you start paying higher taxes much earlier, so that any time people get more income, their taxes go up faster than their income does, practically.

Morris: Those weren't Smith's suggestions? Those were from the Senate Finance Committee?

Bell: Yes, these were legislators insisting. Well, the legislators who were experts in revenue were working on this, and probably it was the Senate Revenue and Tax Committee. They also substituted a tax credit for the personal exemption. At one time we had a personal exemption deducted from gross income of $1500 (single), and they said, "No. Let's make the exemption a tax credit of $25." Here again, they made it progressive. You didn't get as much advantage out of the personal exemption the more you earned.

Bell: All of these things tended to, in effect, guarantee that in the future the personal-income tax would bring in much more money, faster, than it had in the past.

Morris: They got Gordon Smith to agree to those, so those became part of the governor's tax legislation package?

Bell: Yes. They also increased the sales tax from three to four percent. This is generally better for Republicans than Democrats, because everybody pays the sales tax. Those people who do things like travel to Europe and things like that don't pay sales tax, but everybody who has to--

Morris: Buys eggs and shoes and things.

Bell: --buy clothes and shoes, things like that, do. So, basically, this is a poorman's tax. It's spoken of usually as regressive. The poorer you are, the more you pay percentagewise.

They increased the bank and corporation tax from five and one half to seven percent. That's against business, obviously. They increased the cigarette tax from three cents to ten cents. That was more a sin tax. Also, the other sin tax; they increased distilled spirits from a dollar and one half to two dollars a gallon. That's hard liquor, that is not beer or wine. We don't touch those. Ever.

Morris: Still?

Bell: Oh, yes, still. Forever. That's home industry.

So that was the package. It was over $1 billion. You didn't need $1 billion, but they gave them $1 billion. Over. Obviously, by next year, the tax increase was a little bit too much, and so Reagan decided to give back a little bit of it. The next two years he gave back $400 million of that billion one, because he only needed $700 million.

Beginnings of Tax Protest and Relief Measures

Bell: In '68, this was more of a legislative program than the governor's program, they doubled the personal income-tax standard deduction, which the governor would have liked. They started a homeowner's property-tax relief program. Now, this is not senior citizens, this is for everybody that owns a home: the homeowners. This was in recognition of the fact that by '68 the squawks from the people paying taxes were beginning to show up in the legislature.

Bell: They cut the business-inventory tax fifteen percent. The Department of Finance is sympathetic with cutting the business-inventory tax if we have enough money to pay for it. I think the governor would be, too. I was preaching that they ought to eliminate it at that time, way back then.

The tax falls differently on different businesses. Some people have to pay a tremendous amount of tax because they have to maintain a large inventory to keep the wheels going. You get someone like the people who put out oranges at Christmastime, when March first runs around, they don't have any inventory at all, because they crate it all just before Christmas.

Morris: Took it off the trees and put it in a box.

Bell: So they have no tax. This also led to a tremendous amount of avoidance, because they would build warehouses in Reno and across the lines in Oregon and Arizona. When people would order their new supplies, they would say, "But please hold them until after tax day."--

Morris: Yes.

Bell: --"and then ship them to us." These people outside of California were really cleaning up building all of these tremendous warehouses. Reno is full of warehouses for that reason. California didn't get any of that business.

Anyway, they felt it was a bad tax. I would say that not only the administration, but also the legislature was sympathetic that when they could afford to, they ought to work at getting rid of it.

Morris: Having boosted the tax-revenue picture--

Bell: So having the big tax picture anyway, and they had some extra money, they said, "Okay, we can afford to whittle that one a little." So that was the first 15 percent reduction in the business inventory tax.

The second time, in the very next year, the governor came in and he said, "I've still got a big surplus, because times are good now, and this tax structure you gave me is producing all kinds of money. I would like to give some more surplus away." He went into the legislature and he said, "I would like to give everybody a 10 percent credit on their 1969 personal income."

The legislature said, "Fine, but that will give your rich friends a very large amount of money if they're paying a large amount of taxes, so let's limit it to $100 for single persons and $200 for married people. Then everybody will get a little bit instead of a few people getting a lot."

Bell: Well, it gained him half a loaf, so he took it. Then, the legislature reduced business inventory taxes from fifteen to thirty percent. That cost them another $100 million, but they had it. Reagan really believed in giving away the surplus. He always gave it away one-time, as a general rule. The significance on the business inventory wasn't that big, because they were continually reducing that, but they were usually little bites each time.

1970 just went along fine, you know, nothing much happening. Unfortunately, in 1971 we had a recession. We had given away all the surpluses. Even though we had a nice, productive, progressive tax base, when you get a recession, the progressive tax base falls on its face. If you've got a big enough sales tax, it may help you out, because you're going to get sales tax whether people are poor or rich, but your income tax falls on its face. And that was the big producer in this package so far.

Also, we had just a terrible cash-flow problem which we had never really solved. Our expenditures were way out of line with our revenues the first half of the year. I don't remember this as much the second half. It was primarily because we got all the personal-income tax in April. Also, at that time, I think, we were getting the bank and corporation tax primarily in March.

I already covered the fact that then Reagan had to go to withholding. By the way, interestingly enough, we presented the problem to the governor, and although some of the people around him, like [Lieutenant Governor Edwin] Reinecke, and some of the people who were not elected people, were in favor of it, others were dead set against it.

Morris: I think Win Adams was.*

Bell: Win Adams was probably about the most reasonable of anybody in the group, I should say. Win Adams was, I think, intelligent enough to see that. Reagan had some other people around him--I think one of them is now dead. He fell over with a heart attack on a tennis court or something.

Morris: Ned Hutchinson.

*Winfred Adams, "Strategies for Republican Elections, State Government Management, and Water Resources, 1963-1976," oral history interview conducted in 1981, in Appointments, Cabinet Management, and Policy Research for Governor Ronald Reagan, Regional Oral History Office, The Bancroft Library, University of California, Berkeley, 1983, p.3-6.

Bell: Yes, Ned Hutchinson. After we had gone through the facts, Ned would stand up and say, "But governor, let's not forget what we've been sent to Sacramento for." Let's all resolve to throw all these facts out of the window and not do this.

Morris: This was in cabinet meetings, or work sessions?

Bell: This should have been a cabinet meeting because of its importance. I don't remember who decided to bring it up.

Caspar Weinberger and Verne Orr as Finance Directors

Bell: By this time, it was no longer Cap Weinberger, because he had gotten tired of being director of Finance and had gone back East to the Federal Trade Commission.

Morris: You think he got tired of being--?

Bell: I think he got bored after a year and a half. Cap is too smart. Since he wasn't being completely in control, because of the cabinet taking on more responsibilities Cap got fed up. He didn't ever tell me that, but he did tell me that he had done enough of it and he wanted to do something else.

Cap was extraordinary in my opinion. First of all, he had total recall. I would give him a two-page memo on something as he walked into a meeting, and by the time he sat down (he wouldn't look at it again) he could, as rebuttal half an hour later, use word for word half of that memo. Just like that. Since I had just finished writing it, I would know what was in it.

They took him in after Gordon Paul Smith. Cap, being moderate, I wondered whether he would fit in too well. Cap became the most conservative director of Finance I've ever seen. He was an attorney, and he felt that he should wear the cap of his employer. He served Reagan in a way in which Cap out-Reaganed Reagan as far as what Cap thought his philosophy was. He was not a moderate director of Finance. He was a conservative, hard-nosed, tough director of Finance.

Morris: Could you see that happening while he was director of Finance?

Bell: Definitely. First year. He surprised us all. We thought he would be different because of his reputation. He came in as a moderate.

Morris: And he had been on that Little Hoover Commission of government organization.

Bell: Right. He had been in the legislature. What we didn't realize was that in the legislature he had made many enemies. So we were into a little heat there.

Morris: There were still people who remembered him?

Bell: Yes, and that was back in the '50s. There were a few people still there who remembered him. But he was probably the most supportive of a governor of any director of Finance I've ever seen. The cabinet people other than he, the agency secretaries, I think, weren't nearly as supportive of the governor as Cap was.

However, Cap didn't always rank above the other agencies, so I think that after the year, year and a half, when he had gotten things straightened out--I guess '69 was his last year. Things were still pretty quiet. He finally decided to get out. So they brought Verne Orr in.

I really enjoyed Verne Orr. I think he is a very good businessman, also a human being. He did not strike me as the type of rabble-rouser that was around the governor at that time. Neither did the governor, by the way. I think that the governor was more liberal than people ever admitted he was. I shouldn't use the word "liberal". He was more reasoned than these people. He didn't let his emotions sway him too much. If he thought something was good, he would make the decision that it was good, even if his people didn't like it.

More on Tax Withholding and Other Revisions, 1971-73

Bell: Anyway, Verne got stuck with this tax bill, which I just described, including the withholding, and, yes, Win Adams was supportive at that meeting. Several of the people really jumped all over us. We had the job as Finance of saying, "Governor, we've now reached the point where we aren't going to go any further. If we don't do this, by December tenth we will be broke. We won't be able to pay our bills." That is not good publicity for Governor Reagan.

Morris: No. Not for any governor.

Bell: Within ten minutes after the finish of the discussion, and after all of the rest of his people got up and yelled, "You can't do it," and, "We've got to find other ways of doing it;" you know, this sort of thing, the governor said, "When it's inevitable, we'll do it. Since we have to do it, we'll do it. You guys say it's necessary, we'll do it. I'll buy it. I'll sign it." Just like that.

Morris: That sounds very painless after all the preliminary uproar.

Bell: Yes. After all of that tremendous, "My feet are set in concrete," and all the rest of his people trying to keep him that way. For four years we had fought it, because the legislature wanted it.

Anyway, they got us. That program was primarily withholding, but they also expanded the senior citizen's property-tax relief program again (that was the first one they started) to make it, probably, about what it is now, so that if you've got a $40,000 house, you can still get some relief.

As I recall it, they held our feet to the fire on that one until December fourth, when--Moretti was assembly speaker then. Anyway, they cut us loose on December fourth, and December tenth was the last day we could pay the bills. They came about as close as we could get.

Morris: To put pressure on the governor, or put pressure on Finance?

Bell: I think not on Finance; on the governor. Our position prior to Reagan was that withholding was inevitable if the legislature would not rearrange this flow of money. They felt that since the largest flow, at that time, was school apportionments and the state payroll, that there wasn't much they could do about it.

For the four years until we were forced to do it, we did our best to avoid it. After that we told the governor that we think it's inevitable. We did our best.

Other than that, just to finish up his term again. He ran into another tax increase in '72, because we weren't completely out of the hole yet. That increased bank and corporate taxes again from seven percent up to nine percent. They were getting to him again. They also increased the sales tax another one cent.

Morris: Wasn't that postponed?

Bell: They passed the sales tax increase in '72, to become effective in 1973. Then they put it off for six months because they didn't need it. There was enough money coming in so that they didn't need it.

The revenue picture changed between '72 and '73. They doubled homeowner's property-tax relief at that time. It cost them $400 million, but it was worth it. Even that was peanuts in '72. We

Bell: got Gann in what, '78?* But we could see it coming way back then. I think everybody could. This just wasn't enough. Four or five hundred million just didn't solve the problem.

We also started the tax-relief program for renters at that time. We were showing to the legislature that fifty-five percent of the people lived in their own homes, forty-five percent rented. The legislature then decided to give the renters some money.

Then they made the third cut in business inventory taxes in '72, from thirty to forty-five percent, and for the next year, '73, to fifty. It was later abolished under Jerry Brown. They finally got enough money so they could wipe it out. But this was reduced in increments just to get rid of it slowly and because they didn't want to give business that much of a break, because the Democrats were in control most of these times.

Then because times got better again, the last things that happened under Reagan as far as revenue goes, in 1973 the revisions in the state income tax, which produced this tremendous progressive tax base, were built in permanently. The end of the recession, and the start of good times in '73 also created another big surplus. So the governor asked for over $800 million in one-time reductions, a special rebate for 1973 income, like he did before, and a low income-tax rate.

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Bell: The legislature did give him the rebate, which used up some of the surplus. The second thing they did was postpone the sales tax six months, because they had so much money that they didn't need it. Most of the $800 million was in the PIT [personal income tax] rebate. Another one-time giveaway. But the very progressive tax base that was put into three different major tax increases during Reagan stayed in.

He eliminated most of the surpluses by one-time give-backs. The rest of it went for property-tax relief, either to senior citizens or homeowners. Basically, that's it.

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*Paul Gann, co-author of a June 1978 initiative ballot measure (Proposition 13) which sharply reduced local property taxes. The measure was so popularly known as Jarvis-Gann. After its passage, sizable state "bail out" funds were appropriated for city and county governments.

III GUBERNATORIAL AND LEGISLATIVE SPENDING PRIORITIES

Education, Health and Welfare

Morris: Some of the surpluses got cranked into more funding for the schools, which always seemed to be broke.

Bell: It sounded as if he gave it all away, but what happened was the legislature gave away that part which wasn't spent. What you really have to look at is that during Reagan's eight years, his General Fund budget went from about $3 billion to about $8 billion. Schools got a big chunk of that, believe it or not.

Between higher education and grades K-12, they got a pretty good chunk. Several billion went there. A lot of it also went on health and welfare, because they were growing rapidly at that time.

Morris: It was difficult at the time, and it's really difficult now to understand why if there were these surpluses--?

Bell: You're talking about the 1971 welfare reform package that sounds like you're cutting welfare costs?

Morris: Yes.

Bell: He ended up with the SSI-SSP program for welfare. SSI is the federal grant for aged, blind, or disabled. SSP is the supplemental program for these same people.

Morris: Both federal?

Bell: No. SSP is paid completely by the state, SSI by the federal. So the SSI, in effect is a base for everybody; all states. SSP is by state: Do you want to go into it? If you do, how much do you want to give them?

California now spends, and did spend, starting with this program of Reagan's, as much as all the other states put together on SSP.

Bell: We have that kind of a program. Not just for the aged. You use the aged and the blind as a reason why they have all this money, but there is an awful lot of that which goes to the disabled. The disabled are not only those who are physically disabled, but also those who are mentally disabled in a lot of ways.

Morris: The people who may have been in the state mental health program or some other kind of community care?

Bell: Yes, exactly. Quite often, they used Medi-Cal as payments for those programs. Lanterman-Petris-Short programs for the developmentally disabled, local health programs, and programs of this nature.

So there was a lot of growth there, and also a lot of growth in the health department too. I can't remember the growth in those figures. Ed Beach was working welfare at that time, so he was more familiar than I was with it.

Jerry Brown inherited one heck of a good revenue base from Ronald Reagan. I'm sure Ronald Reagan didn't mean to give him that. But he did.

Jerry Brown had no problem at all. In fact, I created a terrible surplus for him, because for two years we were desperately trying to develop a homeowner's property-tax relief here. We could never get it out of the legislature. We always missed by one or two votes in the senate and never got it. So that set the scene for Jarvis.* We lost on that.

Environmental Programs; Governor's Staff Attitude

Bell: A lot of programs we think of as things that, maybe, Democrats would put in instead of Reagan, happened during Reagan's time. Just to give you an example, this isn't a lot of money, maybe, but the types of things that Reagan agreed to, just to give you a tone of the fact that all of his philosophies weren't negative. In Resources he created the ARB, Air Resources Board, right at the start of his administration. He created local air resources board funding in '72. They started that L.A. air basin monitoring for the cars; although it wasn't until this last year that it all went into effect, where everybody living in certain areas now has to have smog-control checks.

*Howard Jarvis, co-author of 1978 tax-limitation initiative (Proposition 13)

Bell: He started the Clean Water bond program in '74. Clean water is a euphemism; it means sewage money. You build sewer plants with this. He cleaned up most of the rivers in this state and most cities by building sewage-treatment plants out of bond issues.

Morris: Were those Reagan ideas, or were those coming from Norman Livermore's people?

Bell: Norman Livermore's people and the legislature. Norman Livermore was a good supporter of Reagan, but I felt he was also a man who supported his own programs. He started the Solid Waste Management program in '72. That developed after he was through. Much more happened later. Let's get rid of solid waste.

The Coastal Zone Commission started under him. It was the forerunner of the coastal commissions which everybody who builds along the coast hates. Everybody else loves.

He started the Energy Commission right at the end of his term. The cross it became mainly ended up with Jerry Brown, but Reagan did start the Energy Commission.

He started the Ecology Corps. We know it today as the forerunner of the CCC, the California Conservation Corps. It provided a lot of help and good constructive work. It was created by executive order of the governor. That was not legislated to start that. Livermore probably got him to do it, but Reagan put it in in '71. All of these things happened during the eight years of Reagan.

He started the environmental quality program in '70. Those are the EIRs (Environmental Impact Reports) that are a pain in the neck for everybody. He was aware of the problems at Lake Tahoe, the pollution, so he signed the bill setting up TRPA [Tahoe Regional Planning Agency] and CalTRPA, the regional pollution control agencies up there.

Here's one that's still around, that probably doesn't involve much money. He started the Environmental Protection program. That's your personalized license plates you get to read on those cars. It's added money, but it goes for environmental protection.

Morris: Isn't that one of those programs that's self-supporting? You buy the license plate and your fee goes into that.

Bell: That's what I meant. It isn't a lot of extra money. It's a dedicated special fund.

Morris: It's self-generating.

Bell: Yes. Generally speaking, Reagan did not have too much objection to dedicated special funds: funds dedicated to provide a service specifically. You know, like fish and game. He didn't have too much objection to that sort of thing.

He also finally signed a statute--but I think this was a legislative-inspired bill--setting up the present Water Resources Control Board, which was a combination of the old Water Rights Board and the Water Quality Board. They have strengthened the water-pollution controls of the state quite a bit. If you see that something is getting into your water, it's usually the water quality people who are out checking it.

Morris: You actually see them around in this part of the state?

Bell: Yes, we do around here, quite a bit. He started a bunch of other things like that, that nobody ever thinks about. Most people didn't even know Norman Livermore, but he was certainly a good, staunch supporter. He was an agency secretary and a member of the cabinet. One of the reasonable people. He started a lot of the programs that are going today.

Morris: I wonder, in budget discussions, how somebody with Mr. Livermore's point of view got along with the people in Business and Transportation.

Bell: I would love to be able to answer that intelligently. I don't think there were ten times I got to sit in on a cabinet meeting. At one time, in fact, I was told directly that the people around Reagan did not like to have civil-service people even go in to the governor's office.

Morris: At all?

Bell: At all. I had to go over there sometimes. Every once in while somebody like Verne Orr would take me, or Cap Weinberger. They couldn't very well say anything if the director of Finance is taking you in. I was assistant director at that time.

They were suspicious of anybody except the people they appointed. They probably appointed two hundred people.

Morris: In the top layer of--

Bell: The top layer of state government. That's about how many exempt positions there were at that time. There are probably about three hundred now. He had a couple hundred thousand state employees, and

Bell: two or three hundred of them are exempt.* A few statutory, mostly exempt. Everybody else is either civil service, or works for a college or a university or school.

Morris: You said that Verne Orr was an easy person to work with. Did he have ideas himself about how some of these revenue programs should go, or some of the control mechanisms that were being developed?

Bell: Well, he was caught by withholding, and he was really caught by what had happened prior to his arrival. He inherited a mess that he couldn't find any solution to. He was a good business man. I think in Finance, you're more interested in saying we want a balanced program that is not only balanced this year but will be balanced in the future, so we won't get in trouble. We would like a revenue base that is not only somewhat progressive, but doesn't get too far out of line, and would also during bad times give us some money.

Morris: Were there some changes in Mr. Reagan's emphasis, or the cabinet's emphasis, going into the second term?

Bell: Well, welfare reform in '71 caught his second term. So that sort of colored it all, didn't it? I think it would have been different if we hadn't had a recession and the need for something like that, I really do. I think it would have been more conservative.

Limitation of Government Expenditures; Local Government

Bell: It took him until '73 to get around to that constitutional amendment on limiting government expenses [Proposition 1]; the growth of government, so to speak. The constitutional lawyers, and Finance, and a few people from the governor's office sat around our conference room for two months and wrote that.

But we think they went too far. They made it unsalable. It's so long now, I've almost forgotten.

Morris: Right. Well, the voters obviously agreed.

Bell: Yes, it bounced. It didn't do very well. That was his last attempt at controlling the cost of government.

Morris: They wrote it in your conference room?

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*non-civil service positions

Bell: We sat in on it, giving them the factual data on expenditures, so that they could try and limit them somewhere. We were making five- and ten-year projections for them, things of this nature. Good or bad, that's what we did.

Morris: Did you think that the idea was worth proposing to the voters?

Bell: We thought it was too tough. The Department of Finance is in the state government, but our budget deals with all government, therefore Finance thinks as much of, or more than, other people about local governments. While I was in Finance, quite often I would be working a great deal of my time with cities, counties, and special districts.

Morris: Because of the impact of state budget requirements?

Bell: Particularly when we were trying to work out property-tax problems, working with schools. Some of school proposals where we added to the foundation program, we had also set limits on their tax base. If they didn't have a high enrollment growth, and we were giving them more money, we didn't think they ought to hit the tax base for more too.

We were getting into local government quite heavily. I would say from the late '60s through the early '80s when I left.

Morris: Well, the concerns of local governments seem to get stronger, and there's an interesting split there--

Bell: Well, particularly when the property tax, which was their main revenue source, got restricted from Jarvis-Gann, because that was their independence. Now they're no longer independent. They have to come to the state, hat in hand, to the governor and the legislature. They don't like that. I don't blame them.

The state can always override and pre-empt, but they usually don't, because legislators come from local districts, and the local people can put a lot of pressure on them to keep that away. But if the county is broke, and we say, "You've got to support these welfare people," they've got to get money from somewhere. They don't want to cut out their sheriff force to do it, and I don't blame them.

So it's up to us to find some way to do it. We're pretty heavy in subventions. We always run over two-thirds of the budget to local government at all times. That includes schools, of course.

Morris: I'm still puzzled about the furor over the welfare and the Medi-Cal programs, having just listened to you talk about the fact that in

Morris: '70 and '71, the governor saw fit to try and turn money back to the citizens. If there was extra money, why was there such a concern about the health and welfare budgets?

Bell: '68 and '69, he was giving it back. '72 and '73 he was giving it back. There were a couple of years when he got caught. I tell you what, let me take a break for a minute, would you.

[Ten minute rest]

School-Aid Equalization; Program Budgeting

Bell: Under Warren and Knight, particularly under Knight, I probably spent almost all my time on education, working up new methods of budgeting all these tremendous growth areas; both the schools and higher education. We were doing an awful lot of the "How much they should have," and, "How we should give it to them," on all these different programs.

Morris: Were you in the department and the governor's office prepared for the Serrano-Priest decision?*

Bell: We didn't like it.

Morris: Yes, but could you see that one coming, too?

Bell: We were told it was coming. We were working with the people at that time.

Morris: The people presenting the case?

Bell: No, we were working with the supreme court people, as I recall. We knew an awful lot of people we shouldn't know and heard things we shouldn't know. The people who were presenting the case kept telling us that they were going to win. We were trying to work out some stuff in advance so we wouldn't get caught.

Morris There had been a couple of previous pieces of legislation for county-wide school equalization that had not gotten anywhere. I wonder if the department had made any recommendations on that kind of legislation?

* 1971 California supreme court decision requiring state wide equalization of amount spent on each child's public-school education.

Bell: We did. I would have to go back. It's too far back, I can't remember it. We were right in the middle of all that.

The Department of Education, which is not under the governor, and Finance were very close ever since all this growth started way back in the fifties. In fact, I audited their first equalization-aid bill in '47, as an auditor, just before I came over to the budget shop. That was the first bill that gave schools equalization aid other than fifty dollars per head for everybody you've got in the prior years.

That was an interesting challenge, and I guess that's what started me on education. I spent a lot of time, probably the first ten years, on education.

Morris: You mentioned Jim Dwight earlier. Didn't he stay with the Department of Finance and concentrate on education?

Bell: No. During his eight years with the shop--or seven, whatever it was, with Reagan, because he was deputy director, he spent almost all of his time on the budget in total, not just on education. He did some work with education, but he was working mainly with our budget analyst people. He spearheaded some of that.

Morris: The reason I asked was that there was a chart--I think I sent it to you--in the California Journal, and it had Jim Dwight as head of the Program Budget Unit on Education. It listed four program-budget areas, and a different person at the head of each.

Bell: That was probably a mistake, because he was always deputy director and not over any of those groups. That would have been our program budget manager charged with that. It used to be Chuck Gocke and prior to that Dick Cutting, and prior to that I forget who headed it.

Morris: Well, the program budgeting seemed to be a big thing of its time. Did it move things forward?

Bell: Program budgeting? We had always felt that since we had a very good grasp of how each of the state agencies was spending its money by program, that although we were converting program ideas into line items, we pretty much were putting together a budget to meet program needs rather than just a straight line-item. This after we converted from an accounting shop to an analyst shop.

Other than that, we developed program-budget formats in the budget. If anything, it looked to me like we added about double the pages, and all we did was confuse the legislature.

Morris: Whose idea was it to go through that exercise?

Bell: Who threw the program budget at us? Was it Hale Champion? I think it was Hale Champion who forced us to do it. We didn't want to do it. We figured we were already doing it, and we could do it simpler than the full program-budget style.

I don't know, I would need a set of budgets, because I could sure spot it the first time. We went through all this big format of stories of all the programs and what they were doing, and how much they cost, broken down into activities and functions. It was largely a repeat of something we always knew. We always started with the assumption that we couldn't, say, budget the Highway Patrol until you had ridden with the patrol, and sat with commanders as they briefed the people.

Morris: Do Finance people go out and do that?

Bell: We used to send all our people out to do that. All of them. I visited and spent time at every institution of education there was in the State of California. I visited every park, every Forestry and Fish and Game office there was. I spent two days in the Deaf and Blind school. I spent a day with the cerebral palsy school, just about dying watching those kids try to feed themselves with forks. It turns your stomach.

Ed Beach used to come back and tell me how awful it was to spend a day down on these original state hospitals that were warehousing people. He would go through the crib sections with all the hydrocephalics, and then he would go back through the back wards with all the seniles. It was pretty bad. That's how you learn what's needed and what isn't needed.

Community Mental-Health Care; Medi-Cal

Bell: They came along with drug treatment and local mental health treatment, and we sure went for that as a means of getting some of the people out of the hospitals. We think they probably took it too far. It became a revolving door.

Morris: There was also the community-care component and how to pay for that.

Bell: All that got set up about the same time. A lot of that was coming from shutting down or shrinking of hospitals. Basically all we did was close Modesto, Dewitt, and Mendocino, and the MI [mentally ill] units at Agnews. We didn't fire or lay off the help. I probably should say the staffing help. The staffing help we transferred to the other hospitals.

Bell: At the same time as we were doing this, Governor Reagan came out with a proposal to increase the staffing at the state hospitals to modern standards, from the old 1950s standards. He did this basically by the closure of the hospitals and the shifting of the people to the other hospitals. It didn't cost a lot of money, but he accomplished the purpose. Rather than just saying, "I can save $10 million per hospital or $20 million," he cut out the administrative costs, but other than that, he shifted all of the staff people to other hospitals.

Morris: So that those remaining hospitals then had a richer staff?

Bell: Oh, they had a much richer staff, and it was good. It may not have been perfect, but it met the standards at that time that everybody agreed to, which later, in '78, were increased again.

Morris: That's kind of the nature of governmental units, isn't it? You get a problem solved, and then somebody thinks of something else that should be done.

Bell: Yes. I just want to touch back on Medi-Cal, because you mentioned that. One of the last things that Governor Pat Brown had to face was the Medi-Cal Bill. The American Medical Association was strongly supporting it, and he felt he had to support it. But Finance felt that it was so costly and open-ended that Ed Beach specifically asked Brown for permission to oppose the bill in the Senate Finance Committee, even though the administration was supporting it.

Morris: Really? That's unusual.

Bell: That's unusual. Since it was Pat Brown, and not Ronald Reagan, he gave his permission, and Ed opposed it. We didn't get it defeated, although we did kick it around and stalled it a little while. Absolute assurance from everybody in the American Medical Association that there would be no problems at all, that the doctors could handle everything. Of course, it also includes the hospitals.

Anyway, when that came out, the costs began to go up--they were sort of threatening. So about halfway through the Reagan administration, the Health and Welfare people put in an amendment to provide a uniform health-care program, which cost $650 million. They paid some of the cost. Also, the local mental health LPS [Lantermen-Petris-Short] programs for '68 to the end of his term cost him $140 million. These weren't cheap programs, but those things are what happened.

Maybe Ed [Beach] knew, but I never knew whether the welfare reforms of 1971, which was Reagan's answer to the escalating costs of welfare, were ever documented as being savings, or if so, how much. I know the person who was doing it, the director, spent a lot of time in our office.

Morris: Bob Carleson?

Bell: Bob Carleson. Telling us how great it was, but I never really was sure that the savings were greater than the expenses, because they added twenty-five percent to the cost of AFDC [Aid to Families with Dependent Children] grants. That in itself is a pretty good chunk. What they did is they tightened eligibility standards, which saved them some money. They adopted flat grants, which eliminated a lot of the discretion of the local social workers.

This was the first time--this was a Carleson deal--where they required you to seek employment if you were getting welfare. It didn't say you had to get a job, but you had to seek it. It wasn't just optional. They also made the family more responsible. Some of these things, I think, later got thrown out by the courts, but at that time they were fairly effective.

Morris: And at one point, the California Medical Association sued the director of the Medi-Cal program.

Bell: Was that Earl Brian?

Morris: That was Earl Brian.

Bell: He was the real kicker in this whole group.

Morris: Well, the judge's finding was that some of the statistics that the Department of Health Care Services submitted in making their emergency cutbacks were erroneous statistics.

Bell: Well, that might not be impossible.

Morris: I have asked a lot of people about this whole area.

Bell: Did anybody ever want to tell you?

Morris: Well, yes. Everybody has wanted to tell me, but what I've heard several times is that they were using different statistics than we were, and you can do anything with statistics.

Bell: That's true. We used to do everything with statistics.

Morris: Right, the numbers will tell you that we succeeded beautifully. And then if you talk to somebody else in the legislature they will say, "Our assumption is B, and these statistics showed that something else happened."

Bell: That could be. I know the purpose was to limit things like over-utilization and things like that. They went to--what do you call it--prior authorization and co-payments and all those nice things.

Morris: Right. And there seemed to be some fairly serious charges that some people in the provider sector may have been more likely to be over-utilizing than some people in the recipient category.

Bell: They used to run these checks, finally, on the doctors, and they would find these guys that were doing anywhere from $100 thousand to $1 million worth of business, just on Medi-Cal. And it's obvious they were mills. On the other hand, those wonderful AMA doctors would say, "We'll take one Medi-Cal patient out of our entire list and that is our quota." There was a lot of that.

IV ORGANIZATIONAL AND ADMINISTRATIVE CONCERNS

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Fractionation of State Government; Data Processing Centers

Morris: You mentioned the Americal Medical Association, and I know many other professional associations are discussing these new ideas in government. How much influence do they have? Do you get a lot of ideas and suggestions from professional associations?

Bell: Do you mean, like the American Dental Association?

Morris: Yes. And also I was thinking of the public administrators' association and the intergovernmental bodies.

Bell: I just can't answer that, because I never saw their impact. It could be that they may be impacting policy committees, where we don't see them. One interesting thing: you know that the governor is head of a very fractionated administrative structure. He is not really directly over very much of the administration. Schools, colleges, universities, PUC, a whole bunch of people, Justice, where the AG is, a lot of people have no connection with the governor at all.

Then you have the legislature. They all have different powers. Now, this is just a comment. During Warren, Knight, and Pat Brown's administrations, the Department of Finance was very influential in the legislative committees, where most of the work is done. The governor's legislative secretary also does work on the floor, and probably does a lot there.

When it came to Reagan, although Finance is automatically a testifier on all bills in the fiscal committees and the revenue and tax committees, the other policy committees specifically asked us no longer to testify in their bills. This particularly bothered us in the education committees, where Leroy Greene and Al Rodda were, because they were not only very good friends but Education had a lot

Bell: of the problems that we wanted to talk about. Actually, that and Health and Welfare are most of the problems that Finance would talk to about bills.

But they said that because of the legislative makeup being primarily Democratic and being very suspicious of Reagan and his people, that the mere appearance of the Department of Finance before a policy committee would be considered a partisan position of a bill. It didn't matter what we said. The issue would then become partisan between the Republicans and Democrats on the committee, and they would never get anything done.

Morris: Because they would see you as the governor's representative?

Bell: Yes.

Morris: Was that also a function of, by Reagan's time, most of the policy committees having their own staff making analyses?

Bell: Yes, because of Unruh. This wasn't bad, but it is true that all of the policy committees were having all their own analyses made, many of them by very good people. They weren't just political hacks doing the committee work, they were good people. A lot of them were very intelligent. A lot of them were pretty far leaning to one side or another, either right or left, but their analyses were well done. Therefore, they didn't really need too much of the input from the Department of Finance that the earlier committees did that didn't have the staff.

Morris: Would some of those committee staff people use Department of Finance data?

Bell: Yes, they would. Unless it was restricted by someone else, we would almost always share our data with the legislative committees. We didn't feel that we had confidential material if it was factual. They would quite often share their material with us.

Morris: That's an awful lot of material going into decisionmaking.

Bell: Yes. In fact, there's one other thing we didn't mention, and I'm not going to get into it very much, because although I had messed around in it a lot at the time, I have more or less forgotten most of it.

The establishment of our EDP data center with the computers probably created more data, by some maximum multiple, than anything we ever had before. That data can snow you. You can now get so much data that it's difficult to know how much and what to do with it. The computer can handle all sorts of data of any quantity. Some of it may be worth while and some if it may not, but at least it can handle an awful lot.

Morris: That is one of the things I wanted to ask you about. My study of the state rosters discovered a Matthias McDonald.

Bell: Matt McDonald?

Morris: Matt McDonald.

Bell: He's a good friend of Ed's. Ed knew him very well and worked with him. Probably he worked with him as much or more than I did. Matt worked for me, I guess, but he was really working for Ed, setting up the initial data-processing stuff for Finance.

Morris: Yes, he was on board for five years?

Bell: But I don't think he set up the big EDPs, service centers like Teale, and the state college one, the university one, and health had one.

Morris: They each had their own?

Bell: They each had their own, so that there are six service centers. Well, there's five. The sixth one never got set up, strictly because of conflict.

Thoughts of a Revenue Agency; Creation of Department of General Services

Bell: We never had a real revenue agency. We have never had a real revenue computer center, because the two major tax agencies--Franchise Tax Board works for the governor, while the Board of Equalization is an independently elected group of four people. The Board of Equalization said, "Yes. We will be the center. We will run all revenue data and we will control everything."

The governor says, "I don't want that, because you guys are independently elected, and quite often you don't like me."

The Board of Equalization says, "Well, we're constitutionally set up. We couldn't change if we wanted to. You'll have to change the constitution." And they had enough clout so it would never be done.

The thing was originally discussed more as an agency to pull auditing together, so that one tax auditor would come into your outfit and do all the work that both Equalization and Franchise Tax do to a business. It would be a convenience to their customer.

Morris: Client? Constituent? [laughs]

Bell: It never could get off the ground because of this dichotomy of where they work, their independence, and the fact that neither one would give in to the other.

Morris: And neither of them wanted to be subordinate to the governor.

Bell: Well, no, Franchise Tax is supportive of the governor. It is under an agency secretary now, but it is also governed by a Franchise Tax Board consisting of the chairman of the Board of Equalization, the state controller, an independently elected person, and the director of Finance. The governor only has one vote on that, but pretty much he has control of the agency, the department itself; the people who actually do the work.

Anyway, it never got off the ground for that reason, and we've never combined the revenue people.

Morris: I remember reading a report that was done for Pat Brown when he first took office, on--

Bell: Way early, that was going to be one of the great things.

Morris: There was going to be a revenue agency. Well, at some point in reorganization, the decision was made to take a big chunk out of what had been in the Department of Finance, and set it up as the Department of General Services.

Bell: We did that.

Morris: It was a department recommendation?

Bell: It was a Department of Finance decision. We did it all by ourselves. We took two years to implement it. We made it in '61. It was caused by Hale Champion sitting there and saying, "I've got this mammoth four-thousand-person department and only about two or three hundred of you ever make any policy decisions. All the rest of you people are just handling paper and running car pools." He wanted to be a fiscal-policy person, and was. He spent most of his time doing that with the governor.

So he said, "Let's get rid of everything that doesn't directly tie in with policy-setting and keep what is necessary for it." Necessary for it would mean things like the economic- and population-forecasting units, which tie in to our work, and the audit shop which, at that time, was still sort of policing for the rest of us; and the budget shop.

Varieties of Planning

Bell: We also had the state planning office, which we didn't know what to do with, and the economic development unit, which we also didn't know what to do with. Hal Walt sort of operated over in his own little office on economic development. We never really knew very much about what he wanted to do, except he was very sincere.

On the planning unit, they more or less just wanted to go around making elaborate maps like city-planning efforts, which wasn't our idea of what a state planning office really ought to be. But we really didn't know.

So, first of all, Hale said, "Let's set up the general-service functions, and get rid of that first." He called Bob Harkness in, who was at that time assistant director, and myself, who was the chief of the budget shop, and he said, "Which one of you wants to do general services and which one of you wants to stay with budgets? The one that stays with budgets can be the assistant director, and the one that's general services can be deputy director."

Bob Harkness says, "Well, I've been assistant director, but I've never been deputy director, so I'll take general services."

That's how I became assistant director of Finance in '62, and Bob Harkness became deputy director and set up what became the Department of General Services. We said, "Let's sit down, and for a year or two, let's spend some time drawing up legislation and planning how we split the two shops."

I think we did it in one year at first, and then the second year we had to do clean-up work on our legislation because it wasn't perfect. We got most of the bugs out by planning for a full year ahead of time, which more or less ties into, probably, why we didn't know what to do with the planning office. All of our state agencies when they have something to do, do their own planning. Planning is only as effective as it ties in with the budget. If you don't provide the budget to take care of the plans, you just waste your time putting together something on paper that sits on a shelf and draws dust.

For example, the state Parks Department wanted to develop a system of parks that would be one or two hours from the population centers, so people could commute to use the state parks. They drew up those plans; we didn't. If the prisons have to expand or develop a new treatment program, they do the planning for it. Everybody does their own planning. By doing that, it directly gets into their

Bell: operation, and it's automatically also in the budget if it's accepted; so therefore, it's effective planning. Any planning that's done in a vacuum or that doesn't get in the budget process somewhere just doesn't get anywhere.

We put state planning in the budget shop because we saw that as the closest you can get to the budget. Therefore, it would be bound to get picked up. However, we never picked up anything in eight years under Pat Brown. At the end of Pat Brown's administration, Hale said, "On a score of one to ten, our efforts on state planning are zero."

Morris: Then it turns up in the governor's office.

Bell: Reagan then moved Bob Harkness out of General Services because they wanted to fill it with their own appointee, General [Andrew] Lolli. I spent a lot of time with him.

They gave Harkness a year in the planning office back in Finance, up into 1969, to clean up the planning office and put out a final report on California, which apparently is still up on the shelf somewhere. That wound up that, so the positions were transferred over to the governor's office. I think that became the Office of Planning and Research. At least it is today.* You can find it there. That is largely policy oriented.

Morris: During Reagan's second term, the Office of Planning and Research was under the Director of Programs and Policy, one of the governor's chief deputies. John Tooker was the planning officer.

Bell: That's right, Tooker ran it for a while, didn't he?

Morris: Yes. And they generated, not by themselves, but with a lot of input from the Resources Agency, an environmental goals and guidelines plan. There was also a local government task force. It's not clear how the planning is distinct from the task forces, which Governor Reagan also used a lot of.

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*The office of Planning was then briefly in the lieutenant governor's office until the legislature in 1970 mandated the development of a state master plan by the governor. See interview in this series with John Tooker, who became the first director of this office in 1971; in "The Governor's Office and Public Information, Education, and Planning, 1967-1964," Regional Oral History Office, University of California, Berkeley 1984.

Bell: Yes, he did. I wasn't that close to the governor's shop. I knew the individuals. I met with them on occasions when they had certain things they wanted to do. I knew the people well, personally, but I'm not that closely connected with the structure. I'm trying to figure out who might.

Morris: They would come individually for some advice from Finance for different--?

Bell: Yes. For instance, Tooker would have something going, so he would come over and visit us for information, and we would get it for him. But I have to admit that I just don't know enough to tell you about it.

Morris: So you see planning as almost a budgeting function?

Bell: Yes, to be effective. That is true for almost every planning office nationwide. All the other state budget people I would talk to felt the same way about it.

You have other specialized planning, like the emergency planning functions, but that really deals with what happens if you have a flood or an earthquake, and how the national guard and all these people are going to take care of these things, such as emergency services.

Morris: The whole law-enforcement, mutual-aid kind of idea.

Bell: Yes. So, really, that's separate; completely. That's a sort of pocket by itself.

Morris: But planning in terms of what the State of California needs--what are the problems and what needs to be done at a policy level, that needs to be tied into budget?

Bell: I suspect we don't have an organization like that now, except in the governor's office.

Departmental Budgeting

Morris: There were also some studies of government operations in Finance going on in the seventies which suggested putting a budgeting function more strongly in the departments; that instead of being initiated in the Department of Finance, the forestry department, for example, should initiate its own budget, and then defend it with you.

Bell: We think that's right. Actually, the forestry department does put in its own grassroots budget. It starts from that. We put out a policy letter that says within these following guidelines, the governor wants the next budget built with these general policies in mind.

Then we say, in addition, the cost of living factors might be this or that or something like, "Don't provide any salary increases in your budget. We'll take care of that. Otherwise, build a budget that you think you need, and separate it between that which is your present budgeted work, and that which is either a reduction or an increase. Then come and tell your agency secretary about it."

If the agency secretary says yes, then it comes over to Finance for final review before it goes to the governor. That's what we do now. At one time we also tried to say well, we have this much money around, and you're going to get so much, so build your budget on it. But we don't do that any more.

We also added zero-base budgeting, which in effect, says you've got zero, and as you add to it in every increment of ten or twenty percent, what are you going to add? If we only give you ninety-five percent, what are we leaving out? That was to me the most difficult decision to make, once it got to Finance, of any method we've ever used, and we've used all of them.

Morris: Really? To tell somebody how they should take off the top five percent?

Bell: Yes.

Morris: Why is that?

Bell: Because they do it, and we don't. They deliberately do it in such a way that it won't hurt them. In a couple of places we've found that if we took the top ten percent off or fifteen percent off, whatever we were shooting for, we would absolutely murder the program. It would be like cutting fifty percent. All the stuff that was the pet stuff, that really wasn't that important, all got buried down in the first [bottom] ten or twenty percent that you don't get to.

The department shouldn't do it, but it happens.

Morris: There's a tension between the Department of Finance and every other department?

Bell: Right. Here's another thing we did which didn't make us popular. We said, "All right. The governor finds that this year is going to be tough. So, if you want some money this year, you've got to provide an equal offset of a minus."

Morris: If you want to build there, you've got to cut there?

Bell: What program or item reduction are you going to take to offset it.

Morris: I see. How was that received?

Bell: After about two years, they began to do it because the governor started to ask for them. I thought that was not too bad. In fact, it threw it back to the department head; where can you afford to give up the least important thing to get what you want the most. If you don't want it that bad, apparently--you know. There are some people who are already pretty tight, because they've been tight for years, and it may be harder for them. It really pays to know what your problem is before you look at something like that.

It worked pretty well; they may still do it. They call them negative budget-change proposals. The department might say, well, we want ten positive ones, but we can at least give you three negative ones so that the effect on the budget will not be quite as much, but that's the best we can do. Some of them were ridiculous, and some of them were okay.

Morris: The other one that I am familiar with is--maybe this is a legislative device--we will authorize so much money, but everybody has to spend five percent less. I don't know what the name of that is.

Bell: Well, that started a long time ago. It started when I first came to work there. Somebody would say we want you to save five percent on your salaries and wages, all the way through the budget. So they just deducted five percent from every appropriation, all the way across.

Morris: And then you would deal with that however?

Bell: And then we would say, "Minus five perecnt, you get this much. It's up to you, within the year that you're operating in, to save five percent."

Morris: That's an interesting managerial device.

Bell: It really is, but I don't know that it's the best, because there are some outfits that don't have much turnover. Therefore it's very difficult, without firing somebody, to save five percent. Someone else may have a high turnover and difficulty in filling vacant positions, and they may automatically be saving ten percent, even if they don't want to.

As we make budgets, all the way through every budget, practically, we have a provision for savings like that. They're all patterned after the patterns of the department involved.

Morris: So you do take an historical look too, that this department normally doesn't fill all its authorizations.

Bell: Or you've got twenty-seven people that are going to retire this year, and you may not have to fill all of them.

Morris: Or, this program is authorized, but it's not going to be fully operative for six months?

Bell: That, of course, is just an automatic type of budgeting procedure. We do that regularly and always have.

Morris: I must say, you make budgeting and finance sound very logical, and rational and--

Bell: At times, it is.

Morris: --and cool and calm.

Bell: It's actually not very political if you do it this way, which always caused our elected and appointed people a little problem, because they're not used to dealing with non-political people. But I would say that just about everybody in Finance, and most of the people in civil service in the rest of the state, are non-political people. Sometimes it's hard for the incoming people to understand that and to know how to deal with it.

Public-Employee Unions; Legislative Oversight

Bell: I'm glad also that I'm no longer in it, because our old employee-organization structure has now become unions. I would find it harder--

Morris: The California State Employees Association?

Bell: All of them. All the departments are now unionized. I would find it harder to build budgets with union conflicts, because it's just one more conflict. Up until now it has always been the governor versus the legislature, and now there's a third party in it too. It's difficult.

Morris: That also was a long time coming. The initial discussions on that were in the '64-'65 era, weren't they?

Bell: Yes. I'm trying to think when the first real collective-bargaining things got--it seems to me it was during [Jerry] Brown, so it was after Reagan. We were opposed to it.

Morris: From a budgetary point of view?

Bell: Budgetary only. The administration was supportive of it, but we still had enough clout to be able to oppose something of a fiscal kind. We were given a great deal of flexibility in fiscal and tax committees, but the policy committees we had to be careful with, because if the administration supported something, we had to take--

Morris: Some of the fiscal and tax committee people sit on the policy committees too, so you get some impact in that way.

Bell: All of them, yes. Of different kinds, yes. There is always somebody on a fiscal committee that sits on this other--in fact, things like Ways and Means are made up of all of the policy chairmen, usually.

I'm running out of things to tell you. I probably had some things that I was going to say which I've forgotten, but that's all right. There's a lot of fancy words for budgeting. You may go through the motions, but most of them don't really have that much impact. Program budgeting didn't really mean that much, because we were already doing most of our budgeting by programming. We may have shown a line item at one time versus program and then converted to program, but we still were trying to measure what was proper. I guess that will always be, until they change our department.

Morris: It's really interesting to hear it from the point of view of people inside the department.

Bell: Well, I could talk over this period about the strength of the Department of Finance, and the fact that the legislature had been nibbling at it for several years, and nibbled at it harder under Reagan because they didn't like him so much. That's in the area of legislative oversight, which I think is wrong, because it's a violation of the separation of powers. But that's something of a fight not between governors and Finance, but between Finance and the legislature.

We provide the governor with most of his strength because we work for him. He tells us what to do. And the legislature knows it. So if they want to get back at the governor, they take it out on us because they can't get back at him.

Morris: But on the overall question of where are we going to find the money to pay for what we have decided to do?

Bell: They will still pretty much come with some of that. They still have to listen to that. Well, it has been a pleasure.

[End Interview]

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TAPE GUIDE - Roy M. Bell

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James S. Dwight

EARLY REAGAN ADMINISTRATION PERSPECTIVES ON STATE FINANCE, 1966-1967

An Interview Conducted by
Gabrielle Morris
in 1983

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I EARLY REAGAN ADMINISTRATION PERSPECTIVES ON STATE FINANCE, 1966-1967

[Date of Interview: May 4, 1983]##

Urgent Request from Governor-Elect Reagan

Morris: We would like to start with what you were doing before you got into state government and how you then went into state government? Are you a local California product?

Dwight: Yes. My children are fourth generation Californians.

Morris: Really?

Dwight: I was controller of Sunkist Growers. Governor-elect Ronald Reagan called me on Thanksgiving Day, 1966, and said, "Would you please come up here and help me?" I'd never met the gentleman before. The question was, was the state broke or not?

He'd been getting conflicting opinions from different people. How he happened to call me was that I was extremely active in the Junior Chamber [of Commerce] in Los Angeles. His campaign manager, Phil Battaglia, had been the president the year before, and we were very closely associated in those community-affairs types of things. When Phil was looking for a financial type, I was the only one he knew.

##This symbol indicates the start of a new tape or tape segment. See Tape Guide page 27.

Morris: How did you get to be controller of Sunkist at thirty-one?

Dwight: Oh, I'd been with the firm, and Sunkist was a client, and when they had the requirement, I'd been around doing the audit.

Morris: You had been with Haskins and Sells?

Dwight: Yes. So that's the whole story. I'll give it to you as detailed as you want it.

Morris: Had you talked with Phil Battaglia while the campaign was going on?

Dwight: Yes. He said, "Well, now that we've won, you ought to come to Sacramento to help us." I told him that I wasn't a bit interested.

Morris: Why not?

Dwight: Because I had no particular interest in getting involved in those things. I was very comfortable and happy doing what I was doing. Not realizing that there was a whole world out there waiting to be plowed and enjoyed, all those kinds of good things.

Morris: The Jaycees at that point were not involved in legislative issues or government--?

Dwight: No, I'd never been all that interested in that sort of thing. And then Sunkist thought it was a good idea. So I said, "Well, if you guys think it's a good idea--" I think at first I agreed to go up for a month, and then I agreed to go up for a year. Then I told Sunkist, "This is so much fun that I don't think I'm coming back." [chuckles] So I stayed up there six years with the governor.

Morris: When Phil said, "Come up and lend a hand," what did he lay out that he wanted you to do?

Dwight: Oh, I guess the original announcement was that I was going to be the financial advisor to the governor-elect, or something like that. Because it was all, you know, there had never been a real transition before. I guess largely because previous governors had always been attorney generals or lieutenant governors or something like that, so they just kind of walked in.

Morris: They already knew what was going on.

Dwight: Well, they were already in Sacramento, and they had people in Sacramento. I guess for a long time this was the first time that a governor had beat an incumbent or come in from the outside and had a lot of problems that he had to deal with at the outset. Or at least I assume that's the reason.

There weren't very many of us in those days. There was Battaglia, Mike Deaver, Bill Clark; of course, they all came in as part of the campaign. I was the only one who hadn't been part of the campaign. A couple other guys: Ken Hall, and Win Adams.

Morris: Do you remember a guy named Ric [Ruric] Todd?

Dwight: Yeah, Ric, from PG and E, and Cap [Weinberger] were the two kind of elder statesmen who came in and did all the briefings. The departmental briefings. I took the financial area of responsibility, but that was later. That was in December or January.

Morris: So you were up there in November? You went up right during Thanksgiving?

Dwight: Yes, I went the next Monday. There was no fussing around. Tracked the president of Sunkist down; I think he was in Europe or Japan or someplace, but he tracked him down anyway. I had told him I didn't want to come. He said would I mind it if they called the president of Sunkist.

Morris: This is Reagan?

Dwight: Right.

Morris: He himself on the phone?

Dwight: Yes. So that changed my life considerably.

Morris: What did he say? Did he say anything about what he saw happening with state finance?

Dwight: Well, he just said, "A lot of people tell me that the state's broke and other people tell me that there's no problem." He said, "I really need to know which one of 'em's right!"

Documenting California's Fiscal Situation

Morris: So you spent those first couple of weeks in [the transition office of] the Pacific Telephone building in Sacramento?

Dwight: No, no I actually moved into the finance department, I guess it was the first day I was up there. One of the deputies was seriously, I wouldn't say seriously ill; he had pneumonia or something like that, but he was just effectively gone.

Morris: Did you call Hale Champion and say, "Can I come and move into your office?"

Dwight: Well, he didn't make the offer, but his offer was proffered by either Mr. [Ed] Beach or Mr. [Roy] Bell, [civil service deputies in the Department of Finance.]

Morris: They made the offer?

Dwight: Yes, they said, "Come on in; there's a desk here, and we'll provide you with secretarial services." All that sort of thing.

But the office down the street was the one that--I spent a lot of time down there too--that's where Bill Clark and Battaglia [were.] Then the rest of us just kind of floated around and grabbed desks and got by. Because there was no money for transition. The state didn't appropriate funds for transition until later [1974.]

Morris: Right. And the governor doesn't get a budget until he's been sworn in.

Dwight: Right, but there was surplus money in the campaign, so there was a little bit extra to take care of things, like they put me on salary for the time I spent in Sacramento; that sort of thing.

Morris: Who did you talk to first? Cap Weinberger? Or Beach and Bell?

Dwight: Well, I went over and talked to Beach and Bell. It didn't take us very long to document the fact that the state was broke. Like about two days, something like that.

Morris: I'm not an accountant. How do you go about doing this? Do you look at the--?

Dwight: You look at the amount of money that's in the treasury, and the amount of money that's going out, the amount of money that's coming in.

What it was at that point in time, of course, is—the governor is sworn in in the middle of the fiscal year, so you're looking at where you're going to be at the end of the year. I can't remember what the number was. But we were spending a million dollars a day more than we were taking in. So I assumed we would be in the range of 350 to 400 million dollars in the hole by the end of the year.

Morris: Was your sense that Mr. Beach and Mr. Bell were happy to see you?

Dwight: I think those two guys are the best of a dying breed, in the sense that they were true civil servants, and they were there to serve the political leadership the best way they knew how. They had been valued, close to Champion and Senior [Edmund G. "Pat"] Brown; and they were just as valued and [had] just as good a status [with us.] In fact, to this day I don't have any idea what their politics are.

Morris: Well, did they express any concern about Pat Brown and his budget and spending program?

Dwight: Yes; oh, yes. It was something called "accrual revenues." That is what had created the problem. It was the device that Senior Brown had jumped to, to allow him to pass the budget for the election year, which did not necessitate a tax increase, which is what he was trying to avoid and without a drastic reduction in state spending.

Morris: I understand that one of the first things Mr. Reagan did was to stop that accrual process, but then a year or two later it was re-instituted.

Dwight: No, no, we didn't stop it, we just provided a mechanism so the state would not be unconstitutionally in debt.

We reserved part of the revenues, it was reserved for cash flow, I remember, and Roy and the deputy controller used to sit down each year and figure out (or comparable people in the controller's office) how much that would be, and [each year] it was always more. As the revenues increased, the reserve for liquidity had to increase too. There was always pressure to spend some of it each year, and I would always have to try to

Dwight: explain it to everybody about why we needed it. Finally the governor would say, just like he did the last year; he'd say, "O.K., none of us understand it, but we agree that we have to have it." [chuckles] That was how we dealt with it.

My recollection is, and I'm kind of fuzzy on this, but I believe that after several years they finally took it out of the state financial statements. It was just sitting there and the legislature wanted to spend it and it became obvious that they shouldn't. They took out the accrual for some of the revenues, and I can't remember whether it was all of them or some of them, but it was enough to remove the problem.

Morris: At what point did you meet with Hale Champion and have any discussions with him about--?

Dwight: The only recollection that I have of Hale--he was kind of around and he was gracious. He met with us once and, as I recall, mostly summed up what he said originally, and kind of looked at all of us and laughed and said, "Well, it's you guys' problem now. If Brown had been re-elected I don't know what I'd have done." [chuckles] Or, you know, that's a paraphrase.

Morris: Yes, but relieved that he didn't have to cope any more.

Dwight: That's what he said. At that juncture he ceased to be a party to it. He was just wrapping up his affairs and worrying about what he was going to do next for a living. Those kinds of things.

Morris: Did that concern you?

Dwight: No. Basically what he [Brown] did was turn the budget over to Reagan. I'm sure he [Champion] was a party to it. Senior Brown said the Department of Finance belongs to the governor-elect.

The 1967-68 Budget; Department Hearings

Dwight: Because the governor-elect has a budget to submit to the legislature on whatever the date was in January, like a week after he was sworn in. Pretty much the finance department was doing whatever we asked it to do. We had a lot of trouble figuring out what to ask it to do, largely because the finance director was not selected until mid-December, if I remember correctly.

Morris: And the budget is already 80 percent put together by that--

Dwight: Oh, yes. The mechanical part of it is that it was all put together, and then we kind of slap-dashed at the last minute. That was where the 10 percent cuts and all those things came in, to come up to submission, and then they re-worked it.

Morris: Once it went to the legislature.

Dwight: Well, I think there was a second submittal. Because there was a whole series of budget hearings that went on between the new appointees [department directors] and Gordon Smith, who was the finance director. That was after kind of a pro forma budget to satisfy the constitutional requirement went to the legislature.

Morris: Who did you talk with about what you could do about the budget?

Dwight: Well, basically, the second thing we started to do was we got into all these departmental briefings and we tried to identify areas where we might cut spending.

Morris: When you say "departmental briefing" do you mean sitting down with people department by department?

Dwight: Yes. There would be persons who were part of this ad hoc transition, and then persons who were actively involved in running the various agencies of government who were Brown appointees, who later resigned or were fired. I guess they assumed they would be relieved of responsibilities as soon as Governor Reagan was inaugurated, or sworn in.

Morris: Did you find them helpful?

Dwight: Yes, I think they made a genuine effort to--I think that's just like Marquis of Queensberry rules. In other words, when you've lost you say, okay, we'll tell you what's going on.

I'm sure they [Department of Finance] previously had meetings with the university, although I must admit I had no involvement in it, and state Department of Education, the state colleges, and all the agencies of government, to get a sense of what their requirements were.

Morris: This is all before the swearing in and the--?

Dwight: Yes. All of that was before the Finance Budget hearings and the transition briefings.

Morris: That's a real frantic task.

Dwight: Oh yes, and there were only four or five of us involved in the transition briefings. As I say Ric and Cap were the senior people, if you will.

Morris: Did they sit in on these hearings?

Dwight: Yes, they sat in. Well, hearings is--briefings, meetings, whatever you want to call it.

Morris: Well, we've come across some materials in the Reagan collection at Hoover in which there were briefing sessions for the transition group where the League of California Cities and the supervisors association and other groups presented their views on state government.

Dwight: Yes, there were those too.

Morris: Were those helpful? Or were those more orientation, get-acquainted things?

Dwight: I think those activities were more what I would characterize as lobbying efforts. In other words, the counties' needs, the cities' needs; of course you had some of the others, the taxpayers association had ideas.

The institutional groups were also that way. The agencies of state government, like the state Department of Education--I'm talking about the big ones--of course, they wanted more money for local schools; the university needed more money for expansion, (the university was still in an expansion mode.) The state college system was still relatively small.

Morris: Very expansionary.

Dwight: Yes, building campuses. The university was much more mature as an institution than the state colleges.

Morris: On these briefings, did you attend all of them? Or did you and Cap Weinberger divide them up between you?

Dwight: No, no, no. I think what we tried to do--I was the finance guy, Deaver was the health and welfare guy, Win Adams was resources. Ken Hall was--I just can't remember.

Morris: Okay, so you parcelled it out that way.

Dwight: Yes, they kind of parcelled it out, so the whole of state government was split into four or five people. I think that the people that I've named are all--Ned Hutchinson might have been involved.

Morris: What kind of advice and counsel did you get from Mr. Weinberger?

Dwight: Well, I think he and Ric sort of split up, and they attended most of the sessions, as interested citizens, I guess that's probably a good way to put it. They set them all up, they set up the calendars, handled all that aspect of it. They were respected public-administration officials, or however you want to characterize it, and the rest of us were just young Turks.

Morris: Yes, that's a recurring phenomenon.

Dwight: I guess, and I'm not sure how I would characterize myself, but most of the people were figuring to go to work for the administration, most of the other people. I guess I was still harboring the illusion that somehow I would finish this. And then I would go back--'course I didn't really leave Sunkist until January.

See, Sunkist's fiscal year ended October 31st, and it was my responsibility to get the accounts closed, handle the audit, and I was doing all that too. So I would be three days in Sacramento and four days in Los Angeles, you know, back and forth.

Morris: No days off in that stretch?

Dwight: No.

Appointments Considerations; Gordon Paul Smith as Financial Director

Morris: Did you talk with Battaglia at all about who might be tapped to be director of Finance?

Dwight: Oh, yes. He considered it. I was never under consideration. So that was never even a factor.

Morris: Battaglia considered taking the appointment as director of Finance?

Dwight: Yes. He was just trying to figure out what he would do.

Morris: I see.

Dwight: Because he was the governor's guy. He could basically do--he could take any job he wanted to.

Morris: Well, there was a--could he take any job he wanted to? Because there was a committee that included [what later became] the kitchen cabinet that was functioning as an appointments committee.

Dwight: Yes. Right. Well, they were funnelling qualified people. But when you're advising the guys just who ought to select for what, presumably you've got your choice of whatever. I think basically that he concluded that the position he ultimately took, the executive secretary's job, was the most powerful position.

Morris: Part of his interest in campaigning had been that he thought he'd like to have a shot at being in an administrative spot in government?

Dwight: [pause] I don't think it was a motivation, I think it was just something that was assumed.

Morris: That you put in all this work and you're not going to quit now, that kind of a thing?

Dwight: Yes, I think it was more like that.

Morris: Were you involved at all in discussing the possible, relative merits of people whose names <u>were</u> submitted?

Dwight: I don't even know how I'd characterize it. I was just trying to get a handle on things, keep whatever process was there moving. Gordon Smith and Gordon Kaylor, who were the other two people who came into Finance, came in about mid-December, if I remember. They had worked a lot together, so they came in as a team.

Morris: I see, Gordon Kaylor came in as Gordon Smith's deputy or assistant?

Dwight: He was the number-one deputy and I was originally the number two deputy. Then when they left I became Cap's number-one deputy.

Morris: Is Mr. Smith's reputation justified?

Dwight: Well, I guess that depends on what his reputation was. Gordon had a tremendous intellect. There was nothing that he couldn't handle in his own mind. He did things that--and he did them very well. He took on the whole state legislature. He took on the board of regents. In almost can't-win situations, and he held his own. He marshalled facts very well, he was extremely persuasive. I'm not sure, you know, what you hope to achieve by public debates in those kinds of arenas, unless you're trying to go through the press. He was ego-driven, more, I think, than anybody I've ever been reasonably close to. I've kept track. Gordon's done a lot since I've seen him; now, you know, we keep in touch. I'd say we're reasonably good friends.

Morris: Well, there are two things which prompt my question; one is that some people have said that on paper he looked like absolutely a super candidate for director of state Department of Finance. Other people who have worked with the state budget over the years have said that he was a disaster in office as the director of the state Department of Finance.

Dwight: I think both of them are wrong.

Morris: You're the first person we've talked to who worked directly with him.

Dwight: Gordon got himself in a lot of trouble with a lot of people, including the governor. He was so quick and so fast that he'd lose people. He'd come in to deliver a point, and oftentimes he wouldn't realize that most of the people there, including the people who had to make the decisions, didn't understand what he was talking about. He would go through it so quick--he'd start half-way through. He also--I don't think he believed in delegation. I mean he delegated to Gordon Kaylor, and said, "Gordon, come up with a budget"; but he wanted to do everything. He was a very hands-on kind of a guy. He didn't believe in letting other people make decisions, like other cabinet officials and department directors and that sort of thing. So it was a very we-and-they context. It was the Department of Finance against everybody else.

Morris: Not only the legislature, but also the cabinet people? He saw himself as first amongst equals.

Dwight: Yes, right, and he got very upset if the governor made a decision without consulting him.

Decisionmaking Develops

Dwight: At that time there was no cabinet system; it was kind of an ad hoc thing. We hadn't realized that we had to put a formal structure of decisionmaking together. I guess a couple of months into it, Bill Clark, who was cabinet secretary, realized that had to happen.

Morris: Well, there was a nucleus of a cabinet structure that Pat Brown had had--

Dwight: Oh, yes, Spencer Williams. And you had Ike Livermore, and you had Gordon Luce [in Reagan's first year as governor.] But there were still a lot of things that kind of leaked through the system.

There was no deliberative process about decisionmaking. We were there a couple of months before we said, "Well, all the decisions are going to be made on mini-memos, and everybody's going to get a chance to see them." There were efforts to coordinate--like there was a senior staff meeting in the governor's office every night at five o'clock. I was both a member of Finance and of the governor's staff. So I kind of had a dual citizenship.

Morris: This was in the transition spell and also when you moved over into Finance?

Dwight: Yes, and it continued all the time I was there. I was kind of perceived in a different context, in some ways.

Morris: That's a difficult position to be in, I would think.

Dwight: Well, it was kind of a given, in the sense, that everybody knew that was the way it was. It was very much above-board.

Morris: That you were the governor's man in Finance?

Dwight: Yes, and I was the Finance man in the governor's office. So I was a double agent, I guess.

Morris: Yes, I would think that people in that spot would be perceived kind of as the enemy wherever they were, or suspect, in terms of agency rivalries.

Dwight: I guess my job kind of evolved to be the--tried to attempt to coordinate by being involved in where all the decisions were being made. I found it very enjoyable. I don't think that it ever worked to our detriment--[that] people got upset about whether I was exceeding my authority in stating things to the governor, things like that.

Morris: I would wonder about, if the matter of divided loyalty would be something that would concern people--that were really tied to--?

Dwight: No, because I think that there was always the sense that we were all there to work for the governor. That was never a question. In fact it was probably the most singular attribute of the success of Ronald Reagan as governor of California was that everybody always worked for him. There was a tremendous amount of peer pressure. In fact if you look at the people who left the Reagan cabinet under pressure to leave, or not the cabinet, but department directors, that sort of thing, it was usually peer pressure by saying, "Hey, you're being motivated by things other than the wellbeing of the state and the fostering of the governor's programs, and therefore you've got to leave."

Morris: That's a very powerful kind of pressure. Are you saying that if Gordon Smith had been director, say, a year later, when some of the structure and coordination mechanisms had evolved for the Reagan administration, he would have been a success as director of Finance? Or would he still--?

Dwight: No, I think his reputation would have been the same, regardless of when he came in.

Morris: What did he and Reagan run into difficulty on?

Dwight: I'm not sure I'd ever characterize [it as] difficulty. Because after he left as the Finance director, the governor asked him to do things and he did them.

Morris: He did continue to work for the governor.

Dwight: Oh, yes. I don't think there was ever any--If I were to speculate I'd say well, maybe he had meetings with the governor and said maybe, "You're not relying on me enough, so maybe you better get somebody else who you can rely on." That sort of thing. But I don't think the governor ever lost confidence

Dwight: in him or anything like that. Obviously there were things he [Reagan] probably would have preferred he'd [Smith] do differently. But I don't think that was ever a factor.

Gordon was a very bombastic person. He was imperious, maybe that's a little too strong an adjective, but--

Morris: His style--

Dwight: Yes.

Morris: --does not sound like it was conducive to comfort in Sacramento.

Dwight: No, he never worried about getting along with other people. He was interested in getting the job done, making the right decisions. "Let me have the authority and I'll get the job done for you." I think that was basically his approach. In some respects it was Cap's approach.

Morris: Well, that's what was occurring to me, listening to you describe Mr. Smith.

Dwight: They were not terribly different; the big difference was that Cap had a great deal more feel for government.

Morris: And a lot more experience; he'd been in the legislature.

Dwight: Yes. Field experience. I use those terms interchangeably. And he had a lot of friends in the legislature.

Morris: And he'd done a lot of government organization. He sounds very proud of what he'd done with the water department and the liquor licensing.

Dwight: Right. And he had good reason. I mean he was the David and they were the Goliath and they were slewn. [laughter]

Morris: Yes, right. And apparently he had a feel for government organization; came at a time when new organization was needed.

Dwight: Well, he was the chair of the Little Hoover Commission,* at the outset. That was his first appointment, of course, part time.

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*Officially, the Commission on California State Government and Economy, created by the legislature in 1961.

Government Organization: A Cabinet Structure and Budget Process

Dwight: I guess one of the first formal tasks that I had was to put together the cabinet structure. Worked a lot with Bill Clark, with Cap, and a guy who worked for the phone company, whose name I can't remember.

Morris: Lyle Moore?

Dwight: No, Furst, Harold Furst, who was also on the Little Hoover's commission. At first we tried to get concepts together; the inverted funnel. Information flows up, policy flows down. All of the things Alan Post never thought would work.

I always argued with Alan before the committees of the legislature. We'd submit the governor's reorganization plans, and Alan would say, "Well, that doesn't make any sense." We'd get into the argument about whether the governor ought to be able to organize state government the way he wants. So forth and so on. Same things we are trying to do across the street; doesn't work quite as well here as it did there.

Morris: Well, you've got fifty states instead of fifty-eight counties. What about Houston Flournoy in this [early period of organizing the administration and getting a handle on state finance. Was he a help as the newly elected Republican controller?]

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Dwight: Well, he and [Robert] Monagan and [William] Bagley were the young Turks that had been in the legislature, one of whom had been Weinberger [earlier]. Sort of wanted to stick it in Gordon's ear. There were a lot of games that got played through the Rev and Tax Committee [Assembly Revenue and Taxation Committee].

Morris: They were very bright fellows, they still are; the ones who are still around are very bright fellows.

Dwight: Yes, but philosophically Hugh and the governor didn't agree on a lot of things. He kept a guy by the name of Jack Sheehan, who had been the principal deputy with Hale Champion, who just moved over as Flournoy's principal deputy. I always felt there were an awful lot of games being played where somebody was setting Flournoy against the governor and the governor against Flournoy. If I were to speculate, I'd say Jack Sheehan was just having fun. As a consequence, they never got along very well, and as a consequence Hugh was never very much involved in policy throughout the whole year, as far as I know. I mean, he came to cabinet meetings once in a while.

Dwight: Then Kirk West moved from the deputy in Finance to the deputy in the controller's office, and that was a move of conciliation. In other words, Kirk was going to be the guy who did just the opposite of what Sheehan did: try to get them to work together. Kirk and I were real close, and as a consequence I could call him up and say, "Hey, this doesn't make any sense." Of course, the Department of Finance and the controller's office work very close together. We were right next door [taps on table], just open the door and we were in their office.

Morris: Physically side by side.

Dwight: So things started working a lot better that way. But philosophically in cabinet meetings Hugh often disagreed with what was being recommended or what the governor wanted to do. Hugh was just a lot more liberal than the governor.

Morris: There's another tough question about the early period of Reagan being governor, and that is Phil Battaglia's departure. I gather, you know, what was in the newspapers at the time, that there was a quote homosexual scandal unquote, and also that there were some concerns about his style of administration and management.

Dwight: I guess I would just as soon not talk about that. You've read the newspapers so you've read everything that I've read. Phil's management style--he was a lot like Gordon--he wanted to do everything himself. He was very, super bright. He was not as ego-driven as Gordon was, in the sense that I don't think he felt he had to prove himself, or anything like that. He was a take-charge guy.

Morris: He's an attorney by training, am I right?

Dwight: Yes. Very successful. Just as Gordon Smith is extremely successful in consulting and extremely successful in business.

Morris: But you were talking about the inverted funnel and things going up and coming down, public-administration theory. How many of these people involved in the early stages had some familiarity with public-administration theory or caught on, or went to find out about it? Did you talk to any of the public-administration people?

Dwight: I'm not sure how it happened, to be honest with you. It just seemed so obvious that that was the best way to do it. It evolved very quickly. It was not subject to a lot of study.

Dwight: As I said, Cap and Harold Furst, the Little Hoover Commission, came up with a lot of stuff. They were working with Bill Clark, and a guy by the name of George Normington, who was kind of an organizational specialist in the Department of Finance. The number-two guys in the cabinet: Ford Ford, who is, I guess, going to be undersecretary of labor. Dick Lyng, deputy secretary of agriculture here now. Who else was involved in that? Jim Schmid, who's president of Gordon Luce's Savings and Loan down in San Diego now.

We kind of worked it out, how was it going to work the best? Nobody should dominate. An agency shouldn't be able to come into the governor and say "Do this" and get it rubber stamped. We wanted to facilitate debate. The governor's style was that he liked to have people argue in front of him. He liked to make decisions right there where everybody could--you know, if they really disagreed, he'd give them another shot at it. But that's the way he liked to make decisions.

Morris: He wanted to watch you, in effect, kind of act out what the debate was.

Dwight: Yes. He wanted to have all the issues in front of him in making the decision, but he didn't like to defer--oh, every once in a while on a tough one, he'd take it back in the back room and he'd bring it back out at the next cabinet meeting and that sort of thing.

Morris: You don't mean that he would literally leave the cabinet meeting and chew it over and then come back--?

Dwight: No, at the end of the cabinet meeting he'd just say, "Well, I still want to think about that one, so we'll have at it one other day." But it was a very deliberative--somebody would come in, present the recommendation to the governor, the members would sit around the table; and people were free to speak. That's where I got in trouble--every once in a while I'd stand up in the back row and say something.

Morris: It wasn't your turn?

Dwight: Well, if I was being contrary to the point of view being expressed at the table by somebody else, then they would take umbrage about, well, you know, the director's sitting up here, why doesn't he make your point; that sort of thing.

Morris: You were impatient because they were taking so long?

Dwight: No, I just--if the director didn't know about it--whatever it was that they were putting there--if there was a point that needed to be on the table that the director didn't know about, then I had the governor's blessing to put it on the table. But if it was telling, and shooting down somebody else's proposal, then they sometimes didn't appreciate that.

Morris: Well, you've got a lot of very bright, strong personalities. It's impressive that as many of you survived as did, and that as much got done as it did.

Dwight: Well, you know, even when there were upsets, there was still a sense of common purpose and all that sort of thing.

Morris: In your describing the way the ideas of organization evolved, how similar did they turn out to be, in your experience, from the way things operated at Sunkist, or out there in the business community?

Dwight: I brought very little of it with me from Sunkist. [pause] I guess in the sense that the operating procedures of a business organization often, usually, reflect the management style of the chief executive, then yes. Because this is the way the governor wanted to do it. We'd bring it in to him, we'd talk about it, and he'd say no, he didn't want it that way, or, yes he wanted it this way. He was very much a hands-on guy.

Morris: That's interesting. Some people feel that to sit and listen to the discussion and then say, "All right, we're going to do A or B." It's <u>not</u> a hands-on kind of a thing.

Dwight: Well, it didn't work that way. Oftentimes he'd say, "Well, what about this?" Or, "You're not talking about this." Or, "What about this?" He didn't feel that he had to limit the basis of decision to what was on the piece of paper. And oftentimes people were embarrassed because they brought an issue in that they hadn't thought all the way through, and the governor would, not so much poke holes in it, but he would bring other issues in, and maybe they'd have to go back and bring something else in.

Morris: Even after people had worked something through, with Finance and budget hearings, and working it through with the cabinet secretary, there were still things that he wanted to hear more about, or ask things that hadn't already been chewed over?

Dwight: The budget was kind of garbled at first. The first couple of years we never really figured a way to put our hands, get our arms around it, in terms of a policy-making process. It was just a lot of decisions, some of which had to come to a quote cabinet budget meeting. But at that juncture it was really too late to do anything, except fine-tune it. So in that respect the Finance director, for the first two years, really was operating as the governor. And if somebody really disagreed with him on something they could go over his head and go to the governor and say, "Well, Cap "(or Gordon)" said this and I don't agree. I think we ought to do something else."

Governor's Survey on Efficiency and Cost Control

Morris: Did you have any contact, this is way back at the beginning, with Warren King and his consulting machinery?*

Dwight: Oh, yes. I put that together too. Battaglia and I went to the Greenbriar, for the National Governors' Conference, to meet with Governor [James A.] Rhodes from Ohio. We got a list of things to watch out for. From he and Dick Krabach, Dick was his finance director in Ohio. Warren King was there.

Morris: He was there at the governor's conference, shortly after the November election?

Dwight: Right. That's when we started putting the thing together. The first meetings--I can't remember, other than Battaglia and myself, who was involved in it, but invited all the business leaders in. Krabach came west for the meeting in Los Angeles and San Francisco. I can't remember whether Warren was out front or whether he was--probably he was out front, because he was involved. It was presumed he was going to be involved at the outset.

Morris: Why did you bring somebody like Warren King all the way from Chicago when there were all you right here?

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*See interview with King in this series for discussion of organization and operation of the 1966-67 business task force, "Governor's Survey on Efficiency and Cost Control."

Dwight: Because he'd done it for Rhodes, and he was the only one who'd ever done it before. California was probably the second.

I talk to Warren, well, five or six times a year.

Morris: Right, in fact he's the one that told us where to find you.

Dwight: Yes. Super-bright guy, and he's built a better mousetrap. We do a lot of Warren King things--the firm does: supporting them financially, and with people, and all that sort of thing.

Morris: You sent some of your clients to him?

Dwight: No, we sent our own people.

Morris: Oh, I see.

Dwight: In other words, if he's doing one in Pennsylvania, we'll respond as part of the business community in Pennsylvania and support an effort for Governor What's-it who's retained Warren King.

Morris: I see, as part of your public affairs effort?

Dwight: No, as corporate citizenship, responsibility. I've had discussions with a number of our partners who say, well, why should we be sending money and people for him to do what's our business? And I say, yes, but he does it so much better than anybody else can do it. He's got it down pat. I couldn't do it as well as he does it. I think that the governor is better served by him.

Morris: I see. Do you think that the task-force idea that he put together in California did focus some issues and get some people involved and develop some talent?

Dwight: Oh, yes. Two thousand recommendations flowed out of that. Most of which were implemented.

Morris: Two thousand recommendations is kind of an administrative nightmare, isn't it?

Dwight: Yes. But, just like sausage, you put them in one end and if you make sure they come out the other end, it's amazing what happens.

Ned Hutchinson took that up, I guess, in the second year. And that was just about his full-time job, making sure that those recommendations were implemented. At cabinet meetings we'd have big boards up to show each--it was a competitive thing. Agency secretaries would compete with one another in terms of who had

Dwight: implemented the most, and they were accountable to the governor in terms of why something wasn't implemented. So there was a pretty heavy policy.

The Budget as Policy Tool; Welfare Reform and Education

Morris: Maybe we could wind up the discussion with--Could you tell me a little more about this idea of the budget as a policy tool?

Dwight: Well, let's see. I guess, it was a given, the budget has the potential for being a manifestation of policy.

Morris: Was that a new idea?

Dwight: No. No, that's a fact, it is. [pause] I'm not sure, other than--making sure that we were holding the cost of government to the lowest possible levels, while still doing what the state should be doing, was the philosophy. So that was the policy. I think if you looked at what happened during those eight years, in terms of where the state was spending its money at the beginning and where the state was spending its money at the end, it represented a flow of policy. But a number of things happened. An awful lot of state money was collected and went back to the counties either as tax relief or just as school funds, or whatever.

In fact that's where the growth was. If you took the universities out of the state operations part of the budget, university-colleges, the eight years was almost no growth. So that state government as an institution, the departments that were run by the governor's appointees, were limited to little or no growth. And all the extra money went into public education: primary, secondary, and higher education. Tax relief, and monies to support the county-administered facets of welfare, AFDC, Medi-Cal, that sort of thing. That's where all the money went. So if you looked at the record of Ronald Reagan as governor, it was very different than his rhetoric, because most of the money went into human services.

Morris: That has been raised. I guess the other side of that is, would the cabinet discussions be vigorous on the subject of what the state government should be spending money on?

Dwight: Yes. Fact, the only real woodshed discussion that I can remember, that was really well-thought-out, was on that subject. I guess it was about the year two, the governor called us (all the cabinet and senior governor's staff) together and said, "Hey, guys, we're

Dwight: missing the point. Here we are saving nickels and dimes on lightbulbs and that sort of thing, and I think we're doing a good job, but we're having little or no impact on social welfare and education spending." And he said, "That's where all the money's going. So we've got to figure out ways of being involved in the decisionmaking process in those areas, in order to reach more rational conclusions about the money that ought to go into there."

What he did is, he asked Ned to take over welfare.

Morris: Ned Hutchinson?

Dwight: Right. He asked John Kehoe and I to take over education.

Morris: In terms of the budget?

Dwight: No, in terms of dealing with the major public-policy aspects of the state. It was our job to go out and figure out ways of putting handles on things so that we could bring back decisions to the cabinet, so that there would be some rational decisionmaking about, not just the financing policies, but other aspects. Of course, Alex Sherriffs came in also, on the education side, very directly.

Morris: I don't see Dr. Sherriffs as being very involved in the fiscal side.

Dwight: They were--you couldn't separate them. In other words, you can't talk just about policy without impacting financing, and you can't talk financing without impacting policy, so you can't divide the issues. And the same thing was true in the welfare. But at any rate, to take what happened, the welfare thing was the Reagan welfare reform. Bob Carleson came out of the highway department.

Morris: That's about year four.

Dwight: Year two, when that all got started.

Morris: That's what I wanted to check. You said year two. I thought Mr. Carleson didn't get involved--didn't get pulled out of Public Works until about 1970.

Dwight: I think it was probably late '68, '69.

Morris: That you did get started.

Dwight: Ned got involved, and he got a bunch of attorneys from the private sector: Neil Papiano (who was another Junior Chamber guy) is one that comes to mind.

Morris: Is he still in Los Angeles?

Dwight: Yes. [pauses to remember] There was a judge down in Los Angeles. But at any rate, Neil was very much involved in that. They just went through all the laws and all that sort of thing and just plowed all the ground.

Morris: Bob Carleson remembers it as 1970.

Dwight: Well, when he officially got over there--

Morris: The sit down and go through all the laws kind of thing. You know, if there was something earlier along this line, I'd like to know what it was.

Dwight: It was that cabinet meeting.

Morris: Yes.

Dwight: Fact, I--

Morris: It could take as long as a year or two for the--?

Dwight: No, I don't think it took that long, because the governor really got after us to figure out what to do. And then we organized a bunch of--[pauses to look through papers]. October 1970 is when we finished the survey of primary and secondary education. So that would have meant that we would have had to start '69, we started those surveys, and six months before that we must have started the whole effort. So that's getting pretty close to the end of '68.

Morris: Okay.

Dwight: But basically we were trying to--we felt that we only got to look at the top of the iceberg. In all these large issues, they could come and they'd say, "Well, if we don't have X number of dollars, there's 533 end-stage renal patients who will die." Those kinds of things; without regard to where's that two hundred and eighty million dollars going that we never talk about.

Zero-base budgeting hadn't been heard of at that stage, but that's really what we were trying to do. We were trying to get in and look at the whole thing, and then push the stuff to the top that we really ought to be talking about. Obviously you can't talk about the whole thing, but we were trying to get the soft stuff at the top instead of the very weighty stuff, and, of course, the budget game is to put the things you can't say no to at the margin.

Morris: Up front. Isn't that what they call closing the Washington Monument--

Dwight: Yes.

Morris: --school of public budgeting?

Dwight: I think we had a fair degree of sucess, in the sense that we were starting from ground zero. We changed a lot of things.

Department of Finance Reorganization

Dwight: We drastically reorganized the Department of Finance at that time.

We basically said, "We're not going to make your budgets." That was the year that the departments composed their own budgets; they took the decisions to the cabinet and it was their responsibility to see that they were reflected in the budget. All Finance did was just check the totals to make sure that they agreed, so nobody could play any games. Finance didn't write the print. I can remember--ABC had a thing, what was it?--that the function of the ABC was to corral all the whores and pimps, something like that.

Morris: This was the Alcoholic Beverage Control?

Dwight: Right. They said, well, they put it in, but they assumed Finance would take it out; and we said we didn't take anything out, we didn't even read it.

That was the delegation where the agency secretary--it was their responsibility to implement the governor's policies; it was their responsibility to formulate the decisionmaking process that would flow to the governor. I think the first time we used that--I know the first time they used that would have been just before the '70 elections, because Jesse Unruh got a hold of the face sheet and said that the governor was going to do something to cut three million dollars out of something. The only place in the world that that number ever appeared was on the face sheet of that decision memo. Of course, the governor made the other choice; Jesse looked kind of silly. That fixes that in my mind.

There was a reorganization of Finance functionally. The roles of the professionals in the department changed.

Morris: Was this about the time--where does Verne Orr fit in here? Is he part of this, or did he come in as a result of it?

Dwight: This started with Cap, where Cap said, "Okay, it's a good idea. Go ahead and put it together." I'm not sure if we finished it under Cap or whether it actually carried into Verne Orr. But I guess it would have had to--the first use of the decisionmaking mechanism and so forth actually was in '70. I guess it would have had to have been Verne. Because Verne was there from 1968 or '69.

Morris: I have Verne Orr becoming director of Finance in January 1970.

Dwight: I guess Gordon and Cap, between the two of them, put about three years.

Morris: Right, and then Cap went to Washington.

Dwight: For the Federal Trade Commission.

Morris: So Verne Orr came while you were evolving that and agreed--?

Dwight: Verne's a very laid-back guy. He's a consensus-builder and that sort of thing. So he was very comfortable with it, because of the cabinet. People in Finance were extremely uncomfortable with it. But I think they eventually became very comfortable with it.

Morris: The career folk?

Dwight: Yes. The career progressions were different, and the authority to approve everything.

Morris: You guys really turned everything upside down, didn't you? [chuckles]

Dwight: Yes. Barney Donnelly was very much involved in that, Al Loeb was very much involved in that. They were my technicians--I'd go back with concepts and they would help me write decision papers. Of course, all of this was deliberate--this all went through the cabinet. In other words, we went to the governor and we said, "We want to reorganize the function of the Department of Finance."

Morris: And Loeb and Barney were where--in the department?

Dwight: In Finance, yes.

Morris: That's fascinating. I'd like to stop there because that's all I can absorb. But we would like to talk to you again about how it worked, say, in the Department of Education and the university.

Dwight: I'd have to decide how much I can tell you.

Morris: You have seal privileges.

Dwight: It's all history now.

Morris: Let the deciding factor be whether it would be useful for somebody else to deal with a similar situation.

Dwight: Well, I shared a lot of it with the Deukmejian people, particularly the Department of Education.

Morris: Yes, they have a new director.

Dwight: I was out there at Thanksgiving. It reminds me of Max Rafferty all over again. [laughs]

Morris: Really? From a different perspective?

Dwight: Well, I don't know, I may be expressing a judgment which is not supported by facts.

[End of Interview]

Transcriber: Joan Cardellino
Final Typist: Anne Schofield

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APPENDIX

JAMES S. DWIGHT, JR., CPA
DELOITTE HASKINS & SELLS, PARTNER
GOVERNMENT AFFAIRS

The firm utilizes his familiarity with the government management process. He serves as the primary liaison with governmental clients and senior political leadership.

Memberships include:

- Member, Advisory Commission on Intergovernmental Relations
- GAO's Audit Policy Advisory Committee
- Government Relations Committee, Board of Governors, United Way of America
- Board member, United Black Fund
- Board member, Meridian House International
- Editorial Advisory Board on Long-Term Care for Hospital Finance Management Association
- American Society for Public Administration
- Association of Government Accountants'
- American Institute of Certified Public Accountants
- President Reagan's Cabinet Council Work Group on Federalism
- Chairman of the President's Commission on Hostage Compensation
- 1980 Budget Transition Team

He is listed in Who's Who in America, Who's Who in Government, and Who's Who In American Politics.

Mr. Dwight is a frequent speaker to government audiences on a wide range of subjects: cash management, effective management, organizational stress and friction, and welfare policy. His audiences include annual meetings of the Association of Government Accountants, American Society for Public Administration, Municipal Finance Officers Association, National League of Cities, National Association of Counties, the National Governors Association, the National Intergovernmental Audit Forum, Institute for Internal Auditors and AGA's Emerging Issues Conferences.

Before joining Deloitte Haskins & Sells, Mr. Dwight held key managerial responsibilities in the federal as well as state government from 1966 to 1975:

1973 to 1975 - Administrator of the Social and Rehabilitation Service of the Department of Health, Education and Welfare
1972 to 1973 - Associate Director of the Office of Management and Budget in the Executive Office of the President
1966 to 1972 - Chief Deputy Director of the Department of Finance for the State of California
Prior to 1966 - Controller for Sunkist Growers.

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